TIME'S RUNNING OUT: PROSECUTING FRAUDSTERS FOR STEALING BILLIONS IN UNEMPLOYMENT BENEFITS FROM AMERICAN WORKERS

HEARING

BEFORE THE

SUBCOMMITTEE ON
WORK & WELFARE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINETEENTH CONGRESS

FIRST SESSION

FEBRUARY 6, 2025

Serial No. 119–WW01

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PUBLISHING OFFICE
59–658 WASHINGTON : 2025

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United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE CONTACT: 202-225-3625
January 30, 2025
No. WW-01

Chairman Smith and Work & Welfare Subcommittee Chairman LaHood Announce Subcommittee Hearing on Time's Running Out: Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers

House Committee on Ways and Means Chairman Jason Smith (MO-08) and Work & Welfare Subcommittee Chairman Darin LaHood (IL-16) announced today that the Subcommittee on Work & Welfare will hold a hearing on fraud in the unemployment insurance program. The hearing will take place on **Thursday, February 6, 2025, at 2:00 PM in the Sam Johnson Room located in 2020 Rayburn House Office Building.**

Members of the public may view the hearing via live webcast available at https://waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

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Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Thursday, February 20, 2025**. For questions, or if you encounter technical problems, please call (202) 225-3625.

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All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its facilities accessible to persons with disabilities. If you require accommodations, please call 202-225-3625 or request via email to WMSubmission@mail.house.gov in advance of the event (four business days' notice is requested). Questions regarding accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

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TIME'S RUNNING OUT: PROSECUTING FRAUDSTERS FOR STEALING BILLIONS IN UNEMPLOYMENT BENEFITS FROM AMERICAN WORKERS

THURSDAY, FEBRUARY 6, 2025

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WORK AND WELFARE,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The subcommittee met, pursuant to call, at 2:00 p.m., in Sam Johnson Room, 2020, Rayburn House Office Building, Hon. Darin LaHood [chairman of the subcommittee] presiding.

Mr. LAHOOD. The subcommittee will come to order. I want to welcome everybody today to our Work and Welfare Subcommittee titled Time's Running Out: Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers. I want to welcome our witnesses here today and thank you for traveling to be a part of this hearing.

And I want to also welcome our new members to the subcommittee. A few of them are here. I want to welcome Rudy Yakym from Indiana who is a new member of Ways and Means and the subcommittee; Aaron Bean from Florida is a new member here, too, and welcome back our old members, and he is not new to Ways and Means but new to the subcommittee, Randy Feenstra from Iowa. Randy, welcome to the Subcommittee on Work and Welfare.

As the returning chairman of the subcommittee, we have a unique opportunity to build on our past bipartisan work and look forward to working with all of you. My district that I cover is the 16th congressional district, which covers much of central and northwestern part of Illinois. The purpose of today's hearing is to learn how Congress can hold fraudsters, how we can identify fraudsters and other criminal organizations accountable by extending the statute of limitations for CARES Act-related unemployment insurance fraud, which will expire on March 27th of 2025 without congressional action.

The Ways and Means Committee has conducted considerable oversight since the UI program's weaknesses were exposed during the COVID–19 pandemic. In February of 2023, the committee held a hearing with the government witnesses from the GAO and the Pandemic Response Accountability Committee who testified to problems with outdated state systems and weak online security that made the program vulnerable to fraud.

Subsequently, in May of 2023, the House passed the Protecting Taxpayers and Victims of Unemployment Fraud Act. The bill would have extended the statute of limitations for an additional five years and incentivized states to go after fraud and recover funds. It also included program integrity reforms to stop the pay and chase model of benefit delivery. Unfortunately, those reforms fell short of becoming law and Congressional action is needed now more than ever.

All told, for the unemployment insurance program alone, GAO has estimated between $100 and $135 billion were lost to fraud during the pandemic. That number is astounding. Even more concerning, the Department of Labor tells us that only $5 billion has thus far been recovered. Meanwhile, we know law enforcement agencies have thousands of cases currently pending. The Department of Justice has charged more than 600 criminal UI fraud cases with associated losses of over $300 million.

As of January 28th of this year, DOJ has more than 1,600 criminal matters that remain open and uncharged. Without an extension of the statute of limitations, these instances of suspected pandemic UI fraud will go unpunished. First and foremost, we need to provide law enforcement with the tools and resources to hold fraudsters accountable while pursuing reforms that can stop this type of UI fraud from happening again. Congress must act to extend the statute of limitations. I hope that in the coming weeks we can work together in a bipartisan fashion to pass legislation to do just that and get a bill across the finish line before the March 27th date.

In addition, we need to examine how international crime rings and hostile nations continue to target the UI program. There are countless examples of criminals, foreign and domestic, deploying sophisticated schemes to defraud the government and UI recipients. For example, my staff recently shared with me a press release from the Department of Justice shown on the board behind me here announcing that a Pennsylvania man pled guilty to obtaining $59 million in public benefits, including unemployment and laundering the proceeds to China. As a member of the House Select Committee on China, cases like this are deeply concerning to me and can confirm our worst fears regarding the attacks on our institutions by hostile nations such as the CCP, the Communist Chinese Party.

I strongly believe we have a responsibility to bring accountability back to Washington and find out what we can do to bring restitution for taxpayers in the face of such staggering amounts of fraud. There is a lot more work to be done to hold these criminals accountable through the criminal justice system, and recoup the billions of dollars on behalf of American taxpayers.

So, again, I want to thank our witnesses for being here today, for traveling, their valuable time, and their insight that we will hear from a little bit later here. With that, it is now my pleasure to recognize the gentleman from Illinois, our ranking member Danny Davis.

Mr. DAVIS. Thank you, Mr. Chairman, and I, too, want to welcome all of our members back of this subcommittee and to our witnesses today. For certain, Democrats want to hold criminals that stole from workers in our unemployment insurance or UI program during the pandemic accountable unequivocally and without a doubt. We provided $2 billion in the American Rescue Plan Act to strengthen program integrity, access, and equity. Democrats want to work on a bipartisan basis to finish the job.

However, I cannot begin this hearing and pretend that business is usual in the face of illegal and unethical actions by this administration. I must recognize and criticize the firing of the Department of Labor Inspector General whose job it was to investigate and prosecute UI fraud and who specifically asked our committee to extend the statute of limitations for UI fraud.

Inspector General Larry Turner served with distinction in both the Trump and Biden administrations and led the Inspector General's Office to 1,400 successful pandemic UI fraud prosecutions and over $1 billion in court-ordered restitution and payment.

Mr. Turner was recently fired by President Trump along with nearly all of the non-partisan inspectors general. After firing these IGs charged with prosecuting fraud and making sure agencies followed the law, the Trump administration illegally blocked states from accessing essential health, childcare, child welfare, and other funding authorized and appropriated by Congress and illegally blocked nonprofit organizations from accessing already appropriated funds just as they were trying to make payroll. The harm done by short delay in payments gave us a preview of what might happen if we enacted the cuts being pushed by my Republican colleagues.

In the last few days, President Trump gave Elon Musk, an unselected billionaire, and his hackers unfettered access to the extremely confidential data regarding payments to workers, businesses, seniors, and entities around the world via the systems with the Treasury Department centers for Medicaid and Medicare, Labor Department, and NIH. These systems include private financial information for seniors receiving social security or Medicare, workers receiving tax refunds, private health information about you and your loved ones, and the privileged information of Mr. Musk's business competitors.

This hearing is about preventing fraud, yet this administration appears to be gifting Mr. Musk the unlimited ability to defraud individual Americans to access their most private financial and health information while inappropriate. Will Mr. Musk illegally stop your social security, tax, Medicare, Medicaid, or disability payment? Will he claw back your tax refund or social security payment if he thinks you didn't deserve it? Will he use his unchecked power to sell your social security numbers or bank account information to the highest bidder or delay government contract payments or grants to his competitors or people he dislikes?

As much as my colleagues and I want to finish the job of prosecuting pandemic fraud and ensure that the unemployment system is ready for the next recession, I cannot ignore the silence of my Republican colleagues in this offensive fraud against the American public. And the sad reality is that the next recession might be very soon given the President's determination to start trade wars with our closest allies that will skyrocket prices on nearly everything Americans buy.

I look forward to hearing from Shelby Meyenburg and getting good advice from the workers on the front lines of making sure that state UI programs pay the right workers the right amount at the right time. Yet I am also extremely concerned that any new inspector generals in this current lawless environment would not appropriately target true criminal rings and instead focus on the workers unemployed during the pandemic who received overpayments due to no-fault of their own.

The first step, the very first step, Mr. Chairman, is for our committee to work together to protect the privacy and prevent the defrauding of the American people.

I thank you very much and yield back the balance of my time.

Mr. LAHOOD. Thank you, Mr. Davis, for your opening statement. I will now turn to our witnesses here today and I will introduce them here in a second. Again, thank you for being here today and look forward to your testimony and our questions and answers from the committee members.

I will introduce from my left to right. Our first witness is Haywood Talcove, who is the chief executive officer of LexisNexis Special Services Incorporated in McLean, Virginia.

Next we will hear from Ms. Anna Hui, who is the director of the Missouri Department of Labor and Industrial Relations in Jefferson City, Missouri.

Thirdly, we will hear from Jeffrey Ficke, who is the CEO and founder of Russell Allen Partners in Cincinnati, Ohio.

And lastly, we will hear from Shelby Meyenburg, who is an unemployment insurance worker with the Washington Federation of State Employees. Welcome to you all.

We will begin with you, Mr. Talcove. You are recognized for five minutes to deliver your opening statement.

STATEMENT OF HAYWOOD TALCOVE, CHIEF EXECUTIVE OFFICER, LEXISNEXIS SPECIAL SERVICES INCORPORATED, MCLEAN, VIRGINIA

Mr. TALCOVE. Chairman Smith, Chairman LaHood, Ranking Member Davis, and distinguished members of the committee, thank you for the opportunity to speak on fraud and government assistance programs. During the pandemic, we witnessed a health crisis and then a massive wave of fraud that shockingly continues today. Domestic and transnational criminals likely stole $1 trillion across all the systems programs meant to help needy Americans. The money was used to traffic drugs, traffic children, and threaten our democracy.

COVID–19 was neither the first nor will it be the last disaster to test this nation. Just this past year we witnessed storms destroying whole communities in North Carolina and wildfires that burnt across southern California, and once again we are seeing the criminals attack at scale. Fraud is a financial problem, fraud is a national security problem, and fraud is a human problem.

I would like to suggest three proven solutions that can significantly reduce this transfer of assets to criminal organizations. Number one, apply identity verification on the front end; number two, end self-certification; and number three, continuously authenticate beneficiaries. For too long the government has treated identity verification as an afterthought. For years we have seen the catastrophic result. Criminals from across the globe flooding state and federal systems, stealing trillions meant for Americans.

We must finally understand that pay and chase does not work. In fact, of the $250 billion stolen from taxpayers from the unemployment insurance program during the pandemic, less than $5 billion has been recovered thus far. Criminals do this because the pandemic taught them that government programs are the mark. They never run out of money and you likely won't be arrested. If we fail to act, we are complicit in funding fraudsters, organized criminals, nation states, and even terrorists who use these programs as their personal checking accounts.

At the beginning of the pandemic, I spoke with a state UI director who assured me her program had no fraud. Three short weeks later, they had more benefit claims than residents over the age of 18. Criminals move faster than government systems. But fraud does not stop at the door. It is just not external actors gaming the system. Insiders, corrupt employees, and contractors steal from the programs taking advantage of their access to systems and passwords bilking the very people they are supposed to be serving.

Today the threat is growing exponentially. AI-powered fraud networks generate fake identities that pass dated misverification standards from 2017. Frauds file thousands of applications in seconds. Deep fake technology generates, quote, unquote, real people that bypass security safeguards. Criminals are evolving in realtime. Our response must be just as fast, just as smart, and just as relentless.

To stop this, we need AI, we need data sharing, and we need changes to the 1974 Privacy Act. Fraud is a data problem and can be mitigated in today's world. Fraud on this scale is not inevitable. It is the result of legacy systems, outdated and complex regulations, lack of data, and failure to act. This is all achievable today.

Taxpayers do not want their funds going to criminal groups. The funds should go to those in need. I am not suggesting we need technological breakthroughs. The solutions are clear tested and available now and used by the private sector whose fraud rate is less than 3 percent compared to 20 percent in the public sector.

If we do the following: Number one, verify identities; number two, eliminate self-certification; and number three, continuously authenticate beneficiaries, then we can restore integrity to our assistance programs, ensure taxpayer dollars reach those who truly need them, and prevent criminals from exploiting the American people. I would also urge you to extend the statute of limitations related to the CARES Act that expires on March 27th.

We are failing the single mother who relies on food assistance, the unemployed worker who genuinely needs support, and families. We are also failing the taxpayer by allowing around $1 trillion annually to be lost to fraud and improper payments.

Thank you, Chairman Smith, Chairman LaHood, Ranking Member Davis, and members of the committee for the opportunity to testify today.

[The statement of Mr. Talcove follows:]

WRITTEN TESTIMONY OF HAYWOOD TALCOVE

CHIEF EXECUTIVE OFFICER, LEXISNEXIS SPECIAL SERVICES INC.

BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON WORK AND WELFARE

February 6, 2025

1. Introduction

Chair LaHood, Ranking Member Davis, and members of the Subcommittee, thank you for inviting me here today to discuss an issue that lies at the heart of our nation's public trust. The widespread fraud that has undermined government assistance programs intended to help millions of Americans during the pandemic continues today. My name is Haywood Talcove, and as the Chief Executive Officer of LexisNexis Risk Solutions for Government, I have spent over sixteen years leading efforts to stop fraud, streamline government services, and protect taxpayer resources. I have witnessed firsthand the transformative power of effective data and identity verification technologies—not just in safeguarding resources, but in ensuring that aid reaches those who genuinely need it. It is my personal mission and that of my team to assist government programs in protecting the benefits they provide, as well as the integrity of our social safety net.

The events of the past few years have shaken that mission to its core. The scale and sophistication of fraud targeting government programs—particularly, but certainly not limited to, unemployment insurance—have reached alarming new heights, exposing vulnerabilities to our systems and demonstrating just how easily malicious actors can exploit them. Post-COVID, these criminals have shifted their focus toward all government assistance programs as a lucrative target, treating public benefits like a low-risk, high-reward business model. Of the nearly $1 trillion estimated to have been stolen across all relief programs, only about $4 billion has been recovered—a sobering reminder of how much remains lost. Additionally, it has come to my attention that the expiration of the statute of limitations for prosecuting CARES Act-related unemployment insurance fraud will occur on March 27, 2025. Congress must act before the deadline to extend the statute to ensure continued prosecution of criminals who continue to defraud our nation's unemployment insurance programs.

The impact of this fraud extends far beyond the numbers. Each case of fraud is a person, a life, someone who needed help and was left without it because criminals exploited a system designed to help them. Fraud doesn't just drain taxpayer dollars; it leaves families, seniors, workers, and countless others waiting for months—or even years—for essential support they were entitled to receive.

II. Nature and Scope of the Problem

The pandemic placed an unprecedented burden on our social services and welfare programs, which were designed to help our nation's most vulnerable during times of crisis. The rapid deployment of relief funds, paired with an abrupt shift to digital processing, inadvertently opened the door to large-scale fraud. At first glance, this may appear to be a purely technical or financial issue. But the reality is far more troubling. Funds intended to support struggling Americans were instead diverted into the pockets of criminals, including organized crime syndicates, transnational networks, and hostile foreign states. This is not simply a financial oversight—it is a profound threat to our national security and a betrayal of public trust.

A clear and disturbing pattern emerges when examining the fraud landscape. These funds have been targeted not only by individual opportunists but by complex, organized entities spanning various levels. **In my estimation, there are four primary groups responsible for exploiting our public assistance programs, each with distinct motivations and methods.**

At the most localized level are **individuals I call "first-person fraudsters,"** who seize upon the system's vulnerabilities for personal gain. These people often overstate their lost income, fail to disclose re-employment, or otherwise misrepresent eligibility details, bending the rules to receive benefits to which they are not entitled. Although this form of fraud has existed within public assistance programs for years, the pandemic's economic strain has dramatically amplified it.

The second group is perhaps more insidious: the Insider Threat. These cases involve government employees entrusted with administering these programs who instead exploit their positions to facilitate fraud. Insider threats are particularly dangerous because they exploit the trust and authority granted to public servants, allowing employees to override controls, approve fraudulent claims, or even sell claimants' personal information for profit. We have seen these cases documented across a range of programs, from Unemployment Insurance to Supplemental Nutrition Assistance (SNAP) and Temporary Assistance for Needy Families (TANF). Each instance of insider fraud tarnishes the integrity of these programs, transforming essential safety nets into channels for exploitation and corruption.

A third, highly coordinated group comprises **domestic criminal organizations that have transformed public benefit fraud into a calculated, profitable enterprise.** These groups, ranging from local gangs to larger crime networks, systematically filed thousands of fraudulent claims using stolen Social Security numbers and other personal identifiers. For these organizations, the government's rush to release funds—coupled with temporary relaxations in eligibility verification—was an unprecedented opportunity. In Maryland, one organized ring filed over 47,000 false unemployment claims, extracting hundreds of millions of dollars. Profits from these fraudulent claims did not circulate within the economy or help support those in need; instead, they were reinvested into criminal enterprises, including narcotics, firearms, and other illicit activities. The impact is real and measurable. Just up the road in Baltimore, a significant connection between COVID-19 fraud and violent crime has been identified. Maryland U.S. Attorney Erek Barron reported that approximately 60% of violent criminals were also involved in some form of COVID-19-related fraud. By prosecuting these fraud cases, Baltimore experienced a 20% reduction in homicides and a 10% decrease in nonfatal shootings. This connection between relief fraud and broader criminal activity demonstrates the critical role that fraud prevention and enforcement can play in enhancing public safety.

Finally, **the most alarming element in this structure is the involvement of transnational fraud rings, terrorist organizations, and hostile nation-states.** The necessary pivot to digital, remote applications made it possible for international actors to access and exploit our systems from afar.

Reports indicate that as much as 70% of the fraudulent unemployment insurance claims filed during the pandemic originated overseas. Funds siphoned by these transnational groups were not redirected toward humanitarian or developmental causes; instead, they supported the most destructive elements of global crime. Some of the misappropriated funds have been traced to North Korea's nuclear weapons program, helping finance weapons of mass destruction. Moreover, links have been identified between these stolen funds and organized crime networks operating in countries like China, Nigeria, Iran, and Russia, further emphasizing the global scale of this exploitation.

The reach of these alliances is growing, as we see the increasingly frequent collaborations between Mexican drug cartels and China-based money-laundering operations. When domestic criminal groups align with international money launderers, the danger to both our national security and public safety increases exponentially. Funds meant to aid Americans have instead been used to strengthen and diversify these alliances, creating a more formidable criminal infrastructure that threatens not only our own citizens but also international stability. This is not a matter of minor technical improvements; it is a matter of reinforcing our defenses against adversaries who see our public resources as an easy target and whose motives directly oppose American values and security.

While the challenges are significant, there are success stories that demonstrate what can be achieved through effective partnerships and targeted action. In a Mid-Atlantic and a Midwest state for example, we worked closely with state agencies to curb rampant unemployment fraud, employing advanced identity verification, and real-time data analytics. Together, we were able to halt the extraction of fraudulent funds and redirect resources to legitimate claimants. The results were immediate and profound—not only did fraudulent claims decline dramatically, but the agencies were also able to serve their residents more effectively, providing a blueprint for what is possible on a national scale. These collaborations highlight the potential of proactive measures and robust partnerships in restoring integrity to these vital programs.

Each of these four criminal elements—whether individual opportunists, insider threats, domestic crime rings, or international actors—has exploited our systems in unique ways, creating a wake of harm that reverberates from struggling individuals to national security interests. The time to act is now, to protect public resources, rebuild trust, and defend against adversaries whose reach grows more complex and dangerous each day.

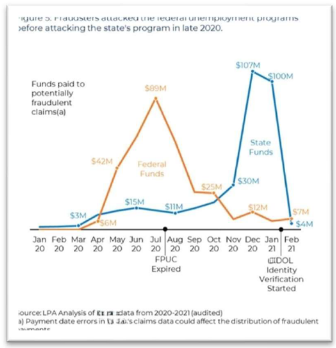

Diagram from a Midwest state audit of UI payments

Imagine for a moment that a single dollar misappropriated from unemployment benefits ends up contributing to the aforementioned dangerous causes. Now multiply that single dollar by hundreds of billions, and we begin to see the weight of this issue—not just as a loss of taxpayer money, but as a matter of national security.

III. Causal Factors

The COVID-19 pandemic necessitated a rapid shift from traditional, in-person verification methods for unemployment insurance (UI) to online systems and call centers. This transition, while essential for public health, inadvertently created vulnerabilities that were swiftly exploited by criminals. The Government Accountability Office (GAO) estimates that fraudulent UI claims during the pandemic resulted in losses between $100 billion and $135 billion, accounting for approximately 11% to 15% of total UI benefits paid during that period. Some experts, me included, place this figure even higher—at over $250 billion.

Several key factors contributed to this surge in fraudulent activity:

Stolen Identity and Data Breaches: Over the past decade, data breaches have compromised the personal identifiable information (PII) of virtually every American. This data is already in the hands of criminal groups and hostile nation-states, waiting to be weaponized. Platforms like Telegram and Discord openly sell stolen financial accounts and personal information, making large-scale fraud accessible even to unsophisticated actors. The question is no longer whether this data will be used—it already has been and continues to be. Fraud rings and hostile nations are exploiting this stolen information to undermine public programs, jeopardizing billions in taxpayer funds and threatening national security.

Lack of Effective Identity Verification Solutions: The urgent need to process a massive influx of claims led many states to implement streamlined application processes, often at the expense of robust identity verification. Criminals quickly exploited these weaknesses, sharing successful tactics and strategies to bypass security measures, overwhelming call centers and outdated systems. Many states and agencies relied on identity verification standards established as far back as 2017—standards that were not designed to address modern threats like AI-generated deep fakes and synthetic identities. Compliance with outdated standards does not equal security, and criminals using advanced tools can easily exploit these vulnerabilities.

This deluge of fraudulent applications siphoned off billions in funds and created significant backlogs, delaying assistance to legitimate claimants who desperately needed help. Even the Department of Labor has acknowledged the urgent need to modernize identity verification measures to combat this type of fraud.

The Rise of Bot Attacks: Cybercriminals have increasingly employed automated bots to flood state benefit systems with fraudulent claims. These bot attacks can submit thousands of applications in a short period, overwhelming system infrastructure and hindering the processing of legitimate claims. For instance, one state reported intercepting over 250,000 bot-generated applications in a single day after implementing advanced threat detection solutions. This highlights the scale of the problem and the necessity for robust cybersecurity measures to protect public resources.

Self-Certification: In an effort to expedite the distribution of benefits, some programs allowed applicants to self-certify their eligibility without requiring immediate verification, and this practice continues in many programs today. This policy opens the door to widespread fraud, as individuals submit false information with minimal risk of detection. Subsequent audits and investigations have consistently identified self-certification as a significant vulnerability that is persistently exploited.

Once fraudulent payments are disbursed, recovery becomes exceedingly difficult. The "pay and chase" model, where authorities attempt to recoup funds after they have been distributed, is largely ineffective. The rewards for criminals often outweigh the risks, especially when states lack the necessary tools and resources to pursue and prosecute these bad actors. Legislative measures, such as H.R. 1163, aim to encourage states to recover UI funds, but they do not sufficiently address the need for preventive measures prior to disbursement.

The convergence of widespread data breaches, inadequate identity verification processes, sophisticated cyber tactics like bot attacks, and policies permitting self-certification created a perfect storm that facilitated unprecedented levels of UI fraud during the pandemic. Addressing these vulnerabilities is crucial to safeguarding public funds and ensuring that assistance reaches those who truly need it.

IV. How Criminals Stole Billions from Our Aid Programs

The pandemic era ushered in an unprecedented flow of government relief funds to millions of Americans, but with this influx came a dark undercurrent of exploitation. Opportunistic criminals, organized criminal networks, and even ordinary citizens looking for loopholes quickly discovered how easily these funds could be diverted. From exploiting identity verification flaws to circumventing lax security in digital applications, criminals saw the rapid rollout of these programs not as a safety net for those in need but as a prime opportunity for theft on a staggering scale.

The gaps in our system became both an invitation and a roadmap for fraud, as criminals recognized just how little oversight was being applied in the rush to get benefits to those affected by the pandemic. The scheme was not always sophisticated, nor did it require access to underground networks; even rudimentary knowledge of stolen personal information could yield substantial financial rewards. And perhaps no case exemplifies the ease with which criminals gamed the system more than that of Eric Michael Jaklitsch, a New Jersey man whose audacious fraud scheme highlights both the vulnerabilities in our benefit programs and the desperate need for stronger safeguards.

Jaklitsch, a career criminal, exploited the most basic forms of identity verification to siphon millions from pandemic-related relief programs. His approach was shockingly simple. Using stolen personal data he obtained online, he crafted applications with real names, birthdates, and Social Security numbers. Jaklitsch did not just rely on others' identities; he went a step further, creating doctored state driver's licenses from New York, South Carolina, and California. In a disturbing yet absurd twist, he placed his own photo on these fake IDs, sometimes wearing an orange clown wig and makeup to avoid detection. To fulfill basic verification requirements, he uploaded selfies wearing the same costume, achieving an astonishing 87% success rate in passing identity checks.

State agencies, burdened by high application volumes and relying on outdated verification processes, accepted these false identities with little scrutiny. They issued prepaid debit cards loaded with benefits, which Jaklitsch then drained at ATMs across the region. What began as an investigation into a few hundred thousand dollars of fraud soon revealed far more extensive theft. Jaklitsch's schemes ultimately amassed known losses of $7.5 million in UI benefits alone, with authorities managing to recover only a fraction of that amount. Moreover, his fraudulent activities extended beyond UI; he also obtained nearly $1.3 million in Small Business Administration (SBA) Economic Injury Disaster Loans (EIDL), illustrating how pervasive these vulnerabilities are across various aid programs.

Jaklitsch's case highlights a profound systemic breakdown. The ease with which he was able to exploit the system exposed multiple points of failure: state agencies failed to validate the authenticity of uploaded driver's licenses; some licenses even lacked essential address details that would have been flagged by basic document authentication tools. In a glaring oversight, the system even processed applications linked to deceased individuals, with no checks in place to verify the applicant's status. This lack of validation extended beyond documents—email addresses associated with multiple claims went unchecked, debit cards were mailed to out-of-state locations without any historical ties to the listed identities, and suspicious IP addresses originating from other states were ignored.

At every step, the system seemed to roll out the red carpet for fraud, allowing Jaklitsch and others like him to manipulate and redirect funds with near impunity. Self-certification policies, designed for expediency, effectively handed criminals a blank check, enabling them to certify eligibility without oversight. Dangerous opportunists like Jaklitsch simply redirected benefits to drop locations and used tumbled email addresses to keep their schemes under the radar.

ID Verification Images (PII Redacted) Submitted for UI Claim in Name of A.R.

ID Verification Images (PII Redacted) Submitted for UI Claim in Name of R.C.

Jaklitsch's case may be a dramatic example, but it is by no means an isolated one. Across the country, criminals were taking advantage of these same vulnerabilities. Whether it was false identities or automated bots flooding systems with hundreds of thousands of claims, the overarching theme was clear: our infrastructure was unprepared for the digital demands of pandemic-era aid distribution, and criminals of all calibers capitalized on this unpreparedness. Without stringent identity verification, without proactive fraud detection, and without adequate inter-agency communication, our safety nets became a target for unprecedented theft.

V. Empathetic Solutions to Combat Fraud in Public Benefit Programs

Fraud, waste, and abuse are not isolated issues but interconnected elements in a chain of systemic vulnerability. Addressing these challenges collectively is essential to restoring the integrity of our government programs and ensuring that benefits reach those who genuinely need them. One individual who has been at the forefront of this effort is Michael Horowitz, Chair of the Pandemic Response Accountability Committee (PRAC). The PRAC, established as part of the CARES Act, has led the charge in investigating fraud and mismanagement within pandemic relief efforts, highlighting how critical it is to view fraud prevention as part of a larger strategy to address fraud, waste, and abuse across federal programs.

As Horowitz noted in his testimony before Congress, the scale of pandemic-related fraud is unprecedented and demands a renewed focus on program integrity. According to Horowitz, the PRAC has not only exposed weaknesses in our benefits distribution systems but also identified key opportunities to strengthen oversight and prevent fraud before it occurs. At its core, this is a data problem—one that can be solved. We have the tools and technology to identify patterns, detect fraud in real time, and prevent funds from being misused. Despite these capabilities, we continue to rely on outdated practices, such as failing to share critical information between agencies and accepting self-reported data without sufficient verification.

The failure to share data across systems creates blind spots that criminals are eager to exploit. Self-reported information, left unchecked, is an open invitation for crime. This is not a question of whether solutions exist—they do. What is needed is the will to implement them. The PRAC's work serves as a stark reminder that fraud within public benefit programs is not just a budgetary issue but a solvable problem that requires modern solutions.

Mandate Stronger Identity Verification Across Programs

Fraudulent claims were able to exploit a lack of stringent identity verification, especially as systems shifted online during the pandemic. Implementing multi-factor authentication and requiring both physical and digital identity verification across all benefit programs would set a strong foundation for fraud prevention. Private-sector industries like finance and healthcare have demonstrated how these techniques can protect resources while preserving ease of access. Imagine a benefits system that seamlessly verifies an applicant's identity in real time, cross-referencing personal information against secure databases, and catching anomalies before benefits are disbursed. These measures can prevent fraud at the entry point, supporting legitimate applicants without unnecessary delays.

Eliminate Self-Certification and Rely on Real-Time Data Verification

Self-certification—allowing applicants to certify their own eligibility—was introduced as a way to streamline benefits distribution, but it created an environment ripe for fraud. Horowitz and the PRAC have repeatedly emphasized that reliance on self-attestation is one of the major weaknesses in pandemic-era relief programs. Agencies must pivot to real-time data verification, cross-checking self-reported information with external data sources to confirm eligibility. Real-time verifications can reduce fraud significantly, and by holding state agencies accountable for their verification processes, we ensure that benefits go to eligible individuals, not to those gaming the system. For those in genuine need, this approach offers both integrity and fairness, ensuring that only verified applicants receive support.

Eliminate Broad-Based Categorical Eligibility (BBCE) To Address Fraud

Current policies like Broad-Based Categorical Eligibility (BBCE) have unintentionally created pathways for fraud by using the lowest bar to entry as the standard for multiple programs, allowing eligibility in one program to automatically confer access to benefits across others—often without additional verification. This practice has led to cases where individuals who qualify for one program gain unverified access to multiple other benefits, bypassing crucial eligibility checks and opening the door to billions in fraud. To protect taxpayer resources and ensure program integrity, BBCE should be eliminated entirely.

Front-End Prevention: Shift from "Pay and Chase" to Proactive Safeguards

By the time fraud is identified, the funds have often been spent, making recovery difficult or impossible. To date, only a fraction—around $4 billion—of the estimated hundreds of billions stolen during the pandemic has been recovered, underscoring the futility of this approach. Rather than chasing lost dollars, we must focus on preventive measures. The PRAC's creation of the Pandemic Analytics Center of Excellence (PACE) has shown that data analytics can identify fraudulent patterns in real time, allowing agencies to flag suspicious claims before funds are disbursed. A front-end focus would save taxpayers billions and ensure that benefits reach genuine recipients promptly and securely.

Declare Fraud and Mismanagement in Public Programs a National Emergency

Over the past two decades, fraud, waste, abuse—across Medicaid, SNAP, Social Security, and various emergency programs—have collectively cost taxpayers more than $2.8 trillion, surpassing even all federal education spending. This is not a simple administrative issue; it is a national emergency that impacts millions of Americans and undermines the purpose of public benefit programs. Fraud and waste in these programs divert funds away from critical services, from education to infrastructure, and dilute the impact of aid intended for vulnerable citizens.

A Commitment to Efficiency and Fairness for Recipients

The reforms proposed here are not only about protecting taxpayer dollars; they are also about safeguarding the dignity and rights of honest applicants who depend on these programs. Modern verification and fraud detection systems can work in the background, making the process seamless for legitimate users while catching fraudulent claims. This approach respects the needs of those facing hardship, ensuring that they receive assistance without unnecessary bureaucratic obstacles. By focusing on ease of access and empathetic design, we can build a public benefits system that is both secure and user-friendly.

VI. Conclusion

Partnering to Build a Secure and Compassionate Benefits System

Thank you for the opportunity to discuss solutions to protect and strengthen our public assistance programs. Your commitment to addressing the challenges within these programs, safeguarding taxpayer resources, and ensuring that benefits reach those in need is essential. What you do every day is crucial for upholding the trust and wellbeing of your constituents, and it is with deep gratitude that I work alongside you in this mission.

The impact of pandemic-related fraud has reached every corner of our country. Hundreds of Billions of taxpayer dollars were misappropriated, and legitimate claimants—the single parents, seniors, and unemployed workers—found their claims delayed or overshadowed by fraudulent applications. Criminals exploited overwhelmed systems, leading to backlogs that harmed those who rely on these lifelines most. As Amy Simon, Principal of Simon Advisory, wisely stated in her previous testimony, "suggesting that benefit timeliness and benefit accuracy must be opposing goals is a false dichotomy… all stakeholders have a vested interest in ensuring that fraud detection and prevention is an integral, permanent part of the program's mission." Fraud prevention and efficiency are not competing priorities; they are complementary, essential components of a trustworthy system.

This is about more than reducing fraud. It is about restoring integrity, honoring the American taxpayer, and ensuring that public resources reach the individuals who need them most. Every instance of fraud represents a person—a life disrupted, someone who counted on support and was denied or delayed because of exploitation in the system. By mandating stronger identity verification, enhancing real-time data checks, and adopting modern, user-centered security measures, we can create a system that is not only secure but also compassionate and accessible. These changes are an investment in a better, more dignified experience for those who seek help. They offer a guarantee that taxpayer dollars will serve their intended purpose and a promise that fraud will no longer undermine the vital programs our citizens rely on.

Recent calls from leaders like Senator Mike Crapo and Chairman Jason Smith emphasize the importance of transparency and accountability in this mission. Their unanswered request for clarity from the Department of Labor regarding the allocation of funds earmarked to combat unemployment insurance fraud underscores a broader need for focused, outcome-driven action. The question of how these funds are being spent—whether on robust fraud prevention measures or unrelated pilot programs—affects not only fraud prevention efforts but also public confidence in the government's ability to safeguard taxpayer dollars.

The task before us is clear. We must act decisively to implement common sense reforms. Congress has the power to lead the way, making fraud prevention and program integrity a national priority. By transitioning from a reactive "pay and chase" model to a preventive approach, we can stop fraud at the source, reduce fraud, and free resources to serve those who need them. This is an investment in our country's future, a demonstration of our shared commitment to the stewardship of public resources.

I stand ready to support you in this mission. With the right policies, technology, and collaboration, we can achieve a benefits system that embodies efficiency, security, and compassion—one that respects the dignity of every honest applicant, safeguards taxpayer funds, and upholds the trust of the American people.

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Mr. LAHOOD. Thank you, Mr. Talcove.

We will now turn to Ms. Hui. You are now recognized for five minutes.

STATEMENT OF ANNA HUI, DIRECTOR, MISSOURI DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS, JEFFERSON CITY, MISSOURI

Ms. HUI. Chairman LaHood, Ranking Member Davis, and distinguished committee members, my name is Anna Hui and I am the director of the Missouri Department of Labor and Industrial Relations and have served in that position since 2017. I thank you and Chairman Smith for the invitation to come today and testify before you all.

Our division of employment security administers our state's unemployment insurance or UI program and was responsible for administering pandemic unemployment programs. I am proud that Missouri is consistently among the nation's leaders in preventing improper UI payments, providing benefits to the rightful recipients, and along with state agency partners, providing high quality reemployment services to unemployed Missourians.

But first let me explain the basics of regular unemployment insurance. Imagine you are purchasing car insurance. You pay premiums. In turn, the insurance company covers potential losses like car accidents. The more accidents you have, the higher your premiums. Conversely, a clean driving record can lead to lower premiums.

The UI program operates similarly. Employers pay taxes and those funds provide temporary partial income support to eligible workers who lose their jobs through no fault of their own. The system encourages employers to maintain a stable workforce, minimize layoffs, and reduce the number of claims filed against their accounts. Just as your car insurance premiums will increase with accidents, an employer's UI tax rate increases with frequent valid claims. This built-in incentive motivates employers to actively participate in the claims process and creates a greater likelihood that only legitimate claims are paid out. Additionally, individuals filing for unemployment insurance not only have to meet eligibility requirements for the initial claim, but also every week they make a request for benefits.

Prior to the pandemic, UI fraud typically involved claimants failing to meet work search requirements or receiving benefits while employed. That was essentially what traditional improper payments were. However, the pandemic dramatically shifted the landscape. Fraud evolved to encompass large scale identity theft with criminals stealing personally identifiable information, PII, to file fraudulent claims. This shift was driven by the massive influx of money into the system and the rush to distribute it making traditional safeguards less effective.

In Missouri, we are fortunate to have already put in place in 2016 a modernized information technology system, advanced fraud detection methods, and tools and partnerships with third-party vendors specializing in fraud prevention. Additionally for years, Missouri has been a member of the National Association of State Workforce Agencies, NASWA, Integrity Center and has actively participated in the integrity data hub. This multifaceted approach was and is still critical to our success, to the integrity of Missouri's UI system, and to the value of every tax dollar.

With the right systems, tool, and partnerships, stopping UI fraud is not impossible, but extending the statute of limitations for CARES Act related UI fraud and overpayment recovery is crucial. The current deadline is March 27 of 2025 and it looms large. Without an extension, prosecutions will be impossible after that date allowing criminals to escape justice and potentially leaving billions of dollars in overpayments due to fraud unrecovered. This is unacceptable.

Beyond extending the statute of limitations, broader UI program reforms are essential as proposed in H.R. 1163, the Protecting Taxpayers and Victims of Unemployment Fraud Act. We must move away from the pay and chase model, which is inherently vulnerable to fraud, and implement more robust preventative measures.

The current Department of Labor administrative funding model often penalizes efficient states. Its heavy reliance on workload is a means to redistribute funds can serve as a deterrent for states to pursue transformative efficiencies. This disincentivizes efficiency and perpetuates systemic problems. The current funding model plays catch up to actual program needs, especially during economic downturns. It is also a disincentive to long-term investment as a short-term nature of some funding sources discourages the state from making critical investments in technology and cybersecurity that incur ongoing costs for licensing, maintenance, and support.

In 2023, Missouri businesses paid approximately $130 million in federal unemployment tax act, food to taxes, to the U.S. Treasury, yet Missouri only received $38.5 million in UI program administrative funding from DOL. This chronic underfunding forced us to lobby for state funds in the Missouri legislature to shore up funding for our UI program and create a long-term modernization plan. For every state UI administrator in the U.S., this situation is unsustainable. In line with NASWA'S 2025 legislative priorities, dedicated technology funding should be a separate consistent stream for modernization, including cybersecurity AI and data analytics.

Finally, adequate funding investments in modernization remain relevant and secure and we must make sure that ongoing maintenance and support are there. The pandemic underscored the need for modern resilient secure UI system. By prioritizing accuracy, investing in technology, and reforming the funding model, we can ensure that the UI program continues to serve its vital function providing a safety net to workers during times of economic hardship while safeguarding the integrity of the system and the trust of the American people.

Thank you. I am happy to answer any questions you may have, and as this is a public forum, I cannot provide any specific details to the fraud measures that we have in place in Missouri.

[The statement of Ms. Hui follows:]

Testimony of

Anna Hui

Director

Missouri Department of Labor & Industrial Relations

"Lessons from Pandemic Unemployment: Fraud Prevention is Achievable through Modernization Funding"

United States House of Representatives

Ways and Means

Work & Welfare Subcommittee

February 6, 2025

Anna Hui
Director
Missouri Department of Labor and Industrial Relations

Chairman Lahood, Ranking Member Davis, and distinguished committee members, thank you for the opportunity to speak with you today about the lessons learned from the economic challenge the COVID-19 pandemic placed upon the American people and the delivery of services to help them meet those challenges. Those specific challenges relate to the unprecedented speed with which new unemployment programs were created and implemented, the generous benefits that often dwarfed the income recipients earned before the pandemic, the lax eligibility verification and validation standards for some programs, the subsequent fraud perpetrated that took advantage of the American people's generosity, and a viable path for fraud prevention for the future.

My name is Anna Hui. For nearly 30 years, I have worked in the labor and employment law and public policy arena. In President George W. Bush's administration, I served as Associate Deputy of Labor under Secretary Elaine L. Chao, and since 2017, I have led the Missouri Department of Labor and Industrial Relations as Director. Active with several national associations, I previously served as President of the National Association of Government Labor Officials (NAGLO) as well as Board President of the National Association of State Workforce Agencies (NASWA), and as a Steering Committee member for NASWA's Unemployment Insurance Information Technology Support Center (UI ITSC). I currently serve as NASWA Board Secretary. Today, I am here to share about Missouri's experience at our Department's Division of Employment Security, the agency that administered the federal unemployment programs throughout the pandemic and administers our state's Unemployment Insurance (UI) program.

The Landscape Before Pandemic Unemployment

A program established by the federal government as part of the 1935 Social Security Act, administered by the states for decades, the regular Unemployment Insurance program provides limited duration partial income replacement to an individual who lost his or her job due to no fault of their own. It is intended to assist individuals in meeting the basic necessities of life and serves to motivate and enable the individual to return to gainful employment. In Missouri, an eligible individual generally can receive a maximum of $320 per week for up to 20 weeks, totaling $6,400 for a benefit year.

The Missouri UI program and benefits paid to recipients are 100 percent funded by employers through an employer tax. As such, UI is structured and operates as an insurance program with inherent checks and balances that prevent and limit improper payments and fraud, including large-scale fraud schemes. Each claim includes a 10-day protest period in which the impacted employers are notified of the claim and are provided an opportunity for the employer to protest the claim. For most employers in Missouri, valid claims are charged against their employer account, impacting the calculation of their future UI tax rate, not unlike your automobile insurance increasing if you have valid at-fault claims against your policy. Conversely, if an employer has few valid claims against their account, their UI tax rate can decrease. In Missouri, an employer could earn a zero percent UI tax rate if their taxes paid in are consistently higher than benefits paid out over time. As such, employers are incentivized to protect the integrity of their accounts and protest any potentially invalid claim.

To receive UI benefit payments, a worker must meet certain earnings requirements from wages paid by an insured employer, lose his or her job through no fault of their own, and meet various other eligibility criteria, such as being able to work, available to work, and actively seeking work each week. Workers deemed eligible must file a claim each week and certify that they are able and available to work to receive payment. Additionally, benefit recipients must complete and log work searches for every week claimed. Due to the partial nature of the income replacement provided in regular UI, limited duration of benefits, and work search requirements, eligible workers are incentivized to return to work. The average duration of benefit recipiency in Missouri is approximately 12-13 weeks. Due to the established eligibility requirements for claim entitlement, workers who are not eligible under the UI program do not receive benefits and are likely to return to work more quickly.

Owing to these inherent controls, pre-pandemic fraud in the UI program was limited to individualized attempts to defraud the program. The duration of the schemes, as well as the amount of money that could be paid out, was also limited due to internal/external controls and data crossmatches designed to detect and prevent fraud and in use for years. An example of pre-pandemic fraud in the UI program is someone who continues to file weekly unemployment claims for a few weeks after returning to work, answering “no” when asked if the individual performed any work during the week. Due to state and federal requirements for employers to report new hires, this scheme is short-lived as the agency is notified through data crossmatches. In this scenario, the weeks claimed and paid are subsequently denied, and an overpayment is established with a fraud penalty. The individual is required to repay the amount subject to enforceable collection if not repaid voluntarily. Individuals who are determined ineligible for the UI program due to insufficient or no earnings from an insured employer do not receive benefits; therefore, such individuals as the self-employees' claims would rarely result in an overpayment. This is not intended to be a comprehensive review of all facets of the UI program but rather provide a glimpse of how the program generally operates when considering the challenge that federal pandemic programs created.

Administrative funding also played a critical role in the state's ability to respond as programs and benefits were created and implemented with unprecedented speed. At the time the pandemic hit, Missouri was experiencing a multi-decade low in unemployment and, consequently, a low claims volume, a key factor of compensable work activities for program funding allocation, was also at multi-decade lows. Thus, appropriations for the UI program and allocations to Missouri prior to the pandemic had been declining for some time. In response, as I am sure was the case for many other states, Missouri, through attrition, was decreasing staffing levels to align with available administrative funds. In short, Missouri DES was extremely lean leading into March of 2020.

Fortunately, Missouri committed to operating its UI program efficiently and effectively despite fiscal challenges. As a result, it created a dedicated UI modernization fund through statute and replaced its 45+-year-old mainframe computer legacy application in November 2016 with a modern system, UInteract. Missouri had already deployed advanced identity proofing tools for claim filing and was able to expand its fraud prevention toolset further in the new application. In addition, Missouri was an active partner in NASWA with the UI Integrity Center and its Integrity Data Hub (IDH). While we entered the pandemic critically understaffed when compared to the historic surge in unemployment claim volume, Missouri DES entered it with a technology solution that was scalable, easily modified, and supported robust self-service, anti-fraud, and enhanced data analysis capabilities. Additionally, Missouri retained expert technical resources on-site since the implementation of its application, adept in programming changes and enhancements specifically for the Missouri system. This meant that Missouri was in a relatively good position from a technical perspective to meet the challenges imposed by COVID-19 and the new federal pandemic unemployment programs and requirements.

A New Era - Federal Pandemic Unemployment Programs

As signed into law, the Coronavirus Aid, Relief and Economic Security Act of 2020 (CARES Act) ushered in a bevy of new federal pandemic unemployment programs to respond to the overwhelming public need and economic impact of so many American citizens unable to work. Unlike traditional economic downturns faced, and for which the UI program was designed, and trend models can project, pandemic unemployment was immediate, unforeseen, and could not be reasonably prepared for.

Unemployment claims in Missouri, as in all states, skyrocketed. In the span of only two weeks in March 2020, initial claims received in Missouri went from approximately 2,900 to 104,000 -- an increase of nearly 3,500 percent, consistent with national averages of approximately 3,000 percent. The speed of the federal program creation and states' implementations, as well as updated federal program guidance and/or executive or legislative action, resulted in frequent updates for program administration, often requiring changes to be implemented retroactively and applied to prior filed claims. In addition, the claim numbers mentioned do not account for the additional work required to apply changing guidance and interpretation retroactively. As mentioned previously, most states entered the pandemic at funding and staffing lows, and many supported their programs with antiquated legacy computer technologies, some of which were decades old.

Critical to this discussion was the generous inclusion of a $600 Federal Pandemic Unemployment Compensation (FPUC) supplemental benefit to be paid in addition to the underlying program benefit. For example, the maximum weekly benefit in Missouri for regular UI is $320; under the CARES Act, an individual eligible for the maximum benefit initially received $920 per week, including the $600 supplemental benefit. A benefit duration of 20 weeks for regular UI, confined by the benefit year, would grow to as many as 79 weeks over the course of the pandemic program performance periods, depending on the various programs one could be eligible for. Many citizens could receive benefits through the program that far exceeded what they could earn in employment, creating a substantial disincentive to return to work. A national study published in August 2020 by the

University of Chicago, entitled ***US Unemployment Insurance Replacement Rates During the Pandemic,*** states,

> "The median percentage of salary replaced by Unemployment during the pandemic was 145%. It was more than 200% for workers in the bottom 20% of the US income spectrum and more than 300% for workers in the bottom 10%. This compares with a typical pre-CARES Act salary replacement rate of 40-50 percent of lost income."

States were encouraged and incentivized to waive work search requirements and employer charging, which are foundational aspects of the regular UI program. These requirements foster and encourage a return to work and incentivize an employer to contest invalid claims to protect against an adverse impact on the employer's UI tax rate, a control that helps limit improper payments.

Additionally, the CARES Act established the Pandemic Unemployment Assistance (PUA) program specifically for those workers not insured by regular UI, primarily the self-employed or otherwise uninsured. Individuals were eligible to receive the maximum weekly benefit amount and any supplemental payment that existed for the weeks of eligibility. For the first nine months of the program, claimants could qualify solely based on self-attesting to one of several qualifying conditions, and states were required to backdate the claim to the beginning of the Pandemic Assistance Period. Unemployment Insurance Program Letter (UIPL) 16-20 Change 1, in accordance with the law as written, specifically states, "an individual filing for PUA does not need to provide proof of employment or self-employment to qualify." Unlike regular UI, since PUA primarily served the self-employed, there are no earnings from an insured employer, thus no inherent control as in the regular UI program, where an employer is incentivized to protest the validity of a claim. Given the size of the weekly payment that could be received under PUA and the self-employed worker's total control over whether they returned to work, there was little to no incentive to work.

More importantly, in consideration of the amount of money that could be received across the entirety of the programs offered and the increasing prevalence of identity theft over the last several years, lax qualification and eligibility requirements, and initial nearly non-existent verification and validation requirements, federal pandemic unemployment programs, primarily PUA, became an irresistible target for localized, national, and even international fraudsters and fraud rings. Unlike the limited fraud schemes prior to the pandemic, the PUA program ushered in new opportunities for non-localized bad actors, including large-scale crime syndicates, to take advantage of the generosity of the American people in a time of crisis.

Prevention of Fraud, Small & Large is Achievable – Pairing of People, Technologies & Data

Traditionally, bad actors launch large scale fraud attacks against state UI programs during times of economic downturns or other crisis, when claim workloads have increased, additional unemployment benefits are available, and national and local pressure is on states to pay benefits as quickly as possible. Amid this environment and its many challenges, Missouri successfully navigated and avoided the large-scale fraud schemes perpetrated by criminal fraud rings. This was the result of many factors, primarily to having a stable modern UI application and fraud prevention tools in advance of the pandemic, paired with strong leadership, expert administrative staff supported by a team of technology experts, and a partnership with NASWA UI Integrity Center. As a team, we were able to analyze data, modify controls, flag suspicious activity for internal review, and adjust the application controls and flags to respond holistically to identified schemes and suspicious actors in real time and at scale. The Missouri team was effectively training and adapting the application and tools to constantly improve its ability to detect and deter fraudulent activity. Existing fraud prevention tools paired with the application were instrumental in detecting suspicious claim activity, preventing bot attacks, and denying fraudulent claim filing and subsequent errant payments. Missouri's partnership with key leaders in the private sector fraud prevention space was critical as the team worked tirelessly to adjust and modify the tool sets and add additional features to stay ahead of trends.

Missouri benefited from these solutions while maintaining multiple avenues for individuals to verify their identity and gain access to benefits they were eligible for. If an individual encountered an identity proofing issue, he or she was given the opportunity to provide proof and, if sufficient, advance his or her claim. If further suspicious activity was detected and/or he or she failed identity proofing, the individual was required to report in person at one of Missouri's Job Centers. From 2020-2022, Missouri stopped nearly 10,000 completed claims due to failed identity proofing and failure to report in person. It generally is accepted that the number of bad actors that likely abandoned claim filing upon encountering robust ID proofing requirements was much greater.

Stopping UI fraud is not impossible, but extending the statute of limitations for CARES Act-related UI fraud and overpayment recovery is crucial. The current deadline of March 27, 2025, looms large. Without an extension, prosecutions will be impossible after that date, allowing criminals to escape justice, and potentially leaving billions of dollars in overpayments due to fraud unrecovered. This is unacceptable. Beyond extending the statute of limitations, broader UI program reforms are essential, as proposed in H.R. 1163 – the "Protecting Taxpayers and Victims of Unemployment Fraud Act." We must move away from the "pay and chase" model, which is inherently vulnerable to fraud, and implement more robust preventative measures.

Insufficiency of UI Program Funding to Prepare for Economic Downturn and Prevent Fraud

Administrative funding provided by the USDOL to states is apportioned from the amount appropriated for the program's administration using an overly complicated and antiquated Resource Justification Model. This model defines the work activities for which a state's effort (calculated in minutes per unit per activity) is used to determine total minutes per activity for the state. This calculation factors into the amount of funding the state receives to perform that function in the succeeding year. The total across all activities comprises most of a state's UI administrative funding to operate the program. Depending on available appropriated dollars, the USDOL may reserve some funds for issuing Supplemental Budget Requests (SBR) with specific requirements a state must adhere to or achieve to qualify for the funding.

Based on this model, UI administrative funding always lags behind the reality of the economic environment in which it operates. In times of low unemployment (low workloads), state agencies receive less funding, making it difficult to respond to increased workloads when an economic downturn occurs. In times of high unemployment, the lagging increase in funding received is consumed primarily by increased staffing to address individuals' service needs and can also be leveraged for technology improvements to address demand. Any unexpended "above-base" funding must be spent on UI technology and automation improvements. However, such funding is often insufficient to meet the needs of an ever-changing, dynamic technological landscape holistically. These "above-base" funds have a relatively short window before they expire, making states leery to use such funds for any automation effort that results in ongoing costs such as licensing, maintenance, and support. Increasing the time states have to make use of such funds to a minimum of three years would be beneficial. In short, the Resource Justification funding model to administer the UI program makes it nearly impossible to implement and maintain the technical solutions necessary to operate the program effectively and efficiently. To do so requires robust safeguards and fraud prevention tools to combat sophisticated and ever-changing fraud schemes.

According to an objective third-party study released in January 2025 performed by Abt Global, Inc., and Needels Consulting, contracted by the USDOL entitled, ***Unemployment Insurance Administrative Funding and Costs: A Literature Review***, "The inflation-adjusted decline in administrative funding in recent years has been about 27%." Additionally, the 2025 legislative priorities published by NASWA, a bipartisan organization representing all 50 states, DC and US territories, states, in part, "Since 2009, funding levels have never met need as demonstrated by budget documents submitted through the Resource Justification Model." In 2023, Missouri businesses paid approximately $130 million in Federal Unemployment Tax Act (FUTA) taxes to the U.S. Treasury, yet Missouri only received $38.5 million in UI program administrative funding from the USDOL. The current administrative funding model often penalizes efficient states. Its heavy reliance on workload as a means to distribute funds can serve as a deterrent for states to pursue transformative efficiencies.

As a result, NASWA outlines two priorities for information technology investment to support effective and efficient UI program operations:

(1) Invest in and provide for ongoing maintenance and support, based on state need, for the digital transformation of UI systems that are flexible, scalable, and resilient, including funding and support for staffing, digital equity, customer experience, and emerging technologies.

(2) Funding for information technology and modernization should be recurring, distinct, and separate from general UI administrative funding, should be adequate, and should not reduce overall administrative funding.

Due to inadequate and inconsistent funding, it is near impossible for a state to project and make strategic and long-term decisions related to UI program administration and investment in a sustainable technology infrastructure – one that can both scale to meet fluctuating volumes and citizen needs and provide for robust system security and program integrity. To succeed, states must find ways to augment existing funds with more stable sources to implement transformative modernization within their UI programs and then, fund ongoing maintenance and support. Due to insufficient federal administrative funding, the Missouri General Assembly enacted legislation to create an UI automation fund as the primary source to fund the implementation of our modernized UI application and toolsets. The Assembly reinstated the fund through legislation to address the ongoing maintenance, support and enhancement costs required to ensure the UI IT infrastructure investment remains relevant and secure.

Conclusion

With the advent of advanced technologies such as Artificial Intelligence, the landscape is constantly changing at an ever rapidly increasing rate providing opportunities for our programs, but also for bad actors armed with access to personally identifiable information of tens of millions of individuals from one of the many data breaches we have all read about. Combatting the constant threat, securing our citizens' access to this economically vital program and essential benefits, and staying ahead of the onslaught of malicious attacks is imperative. It requires expert program and technical staff resources, modern and advanced technology solutions, but also consistent and reliable funding. Like the environment before the pandemic, we have seen a return to low insured unemployment rates within our state and across the nation. Now is the time to prepare and ensure states are equipped with the resources to employ and maintain the solutions that were found to be critical to providing essential program services and program security and integrity. Missouri is confident and knows from experience that both goals, citizen service and robust security, with the right partnerships and funding, can be accomplished.

I thank Committee Chairman Smith, Ranking Member Neal, Subcommittee Chairman LaHood, Subcommittee Ranking Member Davis, and other distinguished members of the Subcommittee for the opportunity to testify. I look forward to your questions.

Mr. LAHOOD. Thank you Ms. Hui.

We will now turn to Mr. Ficke. You are recognized for five minutes.

STATEMENT OF JEFFREY FICKE, CEO AND FOUNDER OF RUSSELL ALLEN PARTNERS, CINCINNATI, OHIO

Mr. FICKE. Thank you, Chairman LaHood, Ranking Member Davis, and members of the subcommittee. I want to thank you for the opportunity to present. My name is Jeff Ficke and I am the CEO of Russell Allen Partners located in Cincinnati, Ohio. My entire career is focused on technology, innovation, and operations around payments. I will give you a little background about that, because it covers government and financial services.

In the '90s I was a founding member of a payments company that supported government service organizations, several federally funded state-operated programs including unemployment. After that company was sold, I moved to the financial services industry working for Fifth Third Bank. I led central operations which transferred approximately $14 trillion a year in funds using ACH wire card and check. After that I moved on to run Fifth Third's commercial payments line of business for the last six years of my career in banking.

Before I present about the opportunities I see exist between these agencies and financial services, I want to discuss my role in the pandemic and the unemployment. At that time, early phase of the pandemic, the pandemic unemployment assistance program was being deployed to those not eligible for traditional unemployment. Ohio was experiencing cybercrime attacks that resulted in Ohio reporting about $1.8 billion in fraudulent overpayments. $1.4 billion was for PUA and about $400 million were about traditional unemployment. I do understand that today the COVID-era pandemic unemployment support is due to expire. I would encourage that to be extended.

I want to start by explaining my involvement in Ohio. It started in 2021. My expertise in government services and banking aligned well with Ohio's needs. I was named to run Ohio's public private partnership. The volume of claims were skyrocketing, the unadjudicated claims and backlog was growing out of control, and citizens in crisis to the agency were overwhelming.

Governor DeWine made the decision to engage the private sector. He worked directly with the Ohio Business Roundtable, a group of about a hundred of Ohio's largest public sector CEOs to engage their membership for expertise. The Ohio Business Roundtable is run by former U.S. Congressman Pat Tiberi. Governor DeWine recognized that the private sector had experience in these crisis situations. My role was to lead the coordination of all these activities between Ohio's Department of Jobs and Family Services and the private sector.

We provided advice and guidance during the execution of these recommendations. We had access to senior leaders in these—from places like Fifth Third Bank, Western Southern, KeyBank, Nationwide Insurance, and others. As I had testified multiple times that I had to testify, had the opportunity to testify multiple times in front of the state's legislative subcommittees. Governor DeWine and ODJFS's director Matt Damschroder gave three clear objectives at that phase. The first goal was to stop the fraudulent claims from being submitted. In early 2021, the state was receiving over a million claims a month for new unemployment claims and POA claims.

With advice from the private sector and ODJFS team, we were able to deploy a new fraud stack, and that happened within the first 60 days of our engagement. The results were overwhelming. New fraud claims—new unemployment claims dropped in two months to less than 25,000 a month. Over a 97 percent reduction in fraud with a new set of technology that was deployed. LexisNexis was a key partner for us at that point in the process. And you can see on the graphic some of the reductions that took place as a part of the PUA.

The second objective was really clear. There was approaching 5 million unadjudicated claims-related issues. We actually took a new approach to actually engage the big data corporations, data analytics teams to actually help us to accelerate that. We did take advantage of programs that were completed by Innovate Ohio, advanced data analytics platform supported by then Lieutenant Governor John Husted, who is now a U.S. senator for Ohio. The P3 team engaged subject matter experts from the private sector and big tech to help segment those. Within 90 days of the project starting, Ohio had all fraud free claims for Ohio citizens had been adjudicated and proper payments were being sent.

The third goal was to answer questions from enormous volume of citizens. Many Ohioians were victims of cybercrime while others who needed benefits were not being processed because of the backlog. During this period the service centers were overwhelmed. Citizens experienced difficulties getting through and sometimes had up to a six hour hold time. You can see in the chart that is displayed here that we returned all those to commercially acceptable standards with call times—call handle times increased and call times—hold times less than three minutes.

The governor's reasoning for seeking this advice and collaboration, Ohio's sector proved to be an outstanding decision. I also want to acknowledge that Ohio's ODJFS employees welcomed the support, worked endless hours to deliver, and truly cared about every citizen who needed the support from the organization.

And the last segment I want to talk about is what I feel is a partnership that can exist between government and financial services. Collaboration. One of the key initiatives launched at the direction of Director Damschroder was to understand that if there was any funds that would be available and left to be returned, we did confirm—we started by confirming our understanding of how this money flowed from initial claims. The traditional unemployment PUA program solutions required claims adjudication that—as well as collection of payment history. Programs checks were focused on claimants payments were sent to the——

Mr. LAHOOD. Mr. Ficke, I am just going to interrupt you there for a second. You are a little bit over. We are going to ask you to just pause there if you don't mind and we will take the rest of your statement, for the record, if you don't mind doing that.

Mr. FICKE. Sure. I just want to talk about future recommendations and I will pause. First of all, the banks and the agencies are both accountable to multiple regulatory organizations. Aligning them so that we can actually get data sharing between the banks and the agencies is a very clear opportunity.

Secondly, the digital payment networks in this space have actually introduced new threats, new opportunities, and, for example, PayPal returned almost $70 million to the State of Ohio on money that they held. Not all fraud—not all mobile payment networks had that kind of diligence.

The third opportunity is that the—excuse me, fourth, the banks also are a point where they can follow sheet metal law, which would actually allow the funds to be held for a period of time and then returned into unclaimed funds. I don't understand how that is going to actually play out in the long run and issues that still need to be determined.

I understand the statute of limitations. I do encourage it to be passed along with House Bill 1163. We have spoken at multiple NASWA and UWC conferences on it. We look forward to answering your questions. Thank you again.

[The statement of Mr. Ficke follows:]

TESTIMONY OF JEFFEY A. FICKE
FOUNDER & CHIEF EXECUTIVE OFFICER
RUSSELL ALLEN PARTNER, LLC
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON WORK AND WELFARE
February 6, 2025

Chair LaHood, Ranking Member Davis, and members of the Subcommittee, thank you for the opportunity to testify. My name is Jeff Ficke, and I am the Founder & CEO of Russell Allen Partner located in Cincinnati, Ohio. My career has focused on technology, innovation, operations and risk management of payment solutions, in government and financial services.

Jeff Ficke Background

In the 1990s I was a founding partner of my government services company that provided payment solutions for several federally funded, state operated programs including unemployment. After the sale of that company, I moved to Fifth Third Bank led Central Operation that moved ~$14 trillion dollars annually via ACH, Wire, Cash, Check and Card. Then I led the Fifth Third's Commercial Payments Line of Business for the last six years of my banking career.

Before presenting my thoughts on opportunities between these agencies and the financial services industry I want to discuss my role during the pandemic on unemployment. At that time the Pandemic Unemployment Assistance (PUA) program was being deployed to help those not eligible for traditional unemployment. Ohio was experiencing cybercriminal attacks that resulted in Ohio reporting $1.8 billion in fraudulent overpayments, $1.4B in PUA, $433M in traditional.

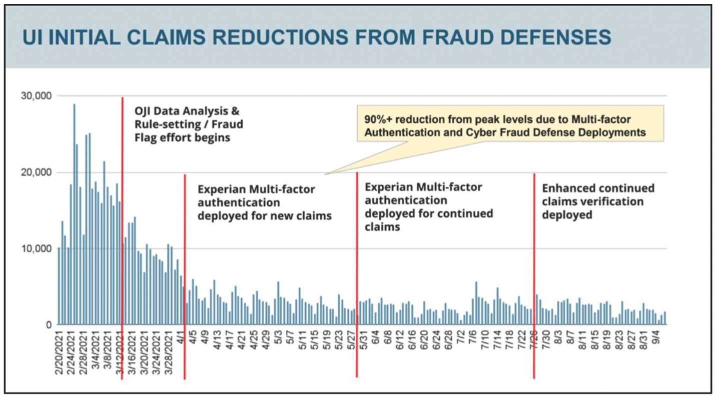
Ohio's Public Private Partnership (P3)

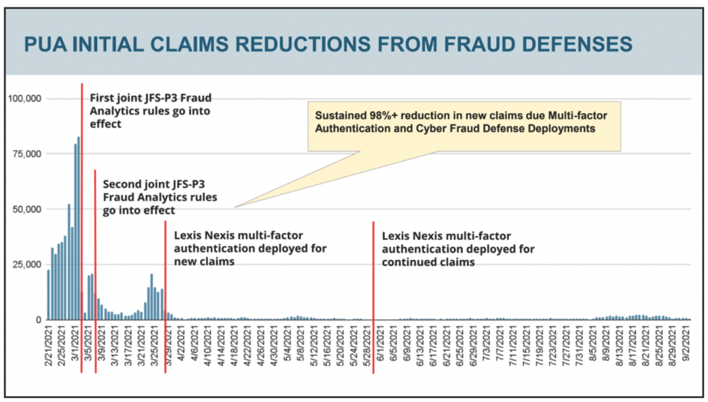
My involvement started in Ohio in February, 2021. My expertise in government services and banking payments aligned well with Ohio's needs. I was named to lead Ohio's Public Private Partnership Task Force (P3). The volume of fraudulent claims was skyrocketing, the unadjudicated claims backlog was growing out of control and citizen inquiries to the agency were overwhelming.

Ohio's Governor Mike DeWine made a decision to engage the private sector for support. He worked directly with the Ohio Business Roundtable, a group of about one hundred of Ohio's largest public company CEOs, to engage his membership for their expertise. OBRT was run by former US Congressman Pat Tiberi. Governor DeWine recognized that the private sector leaders had the experience in crisis situations. My role as the leader of the P3 team was to coordinate all activities between Ohio Department of Job and Family Services personnel and the private sector SMEs.

We provided advice and guidance during the execution of these recommendations. We had access to senior experts from companies like Fifth Third Bank, Western Southern, Keybank, Nationwide Insurance, Encova, Worldpay, Marathon. I also presented multiple times at a legislative subcommittee formed to address the pandemic unemployment situation.

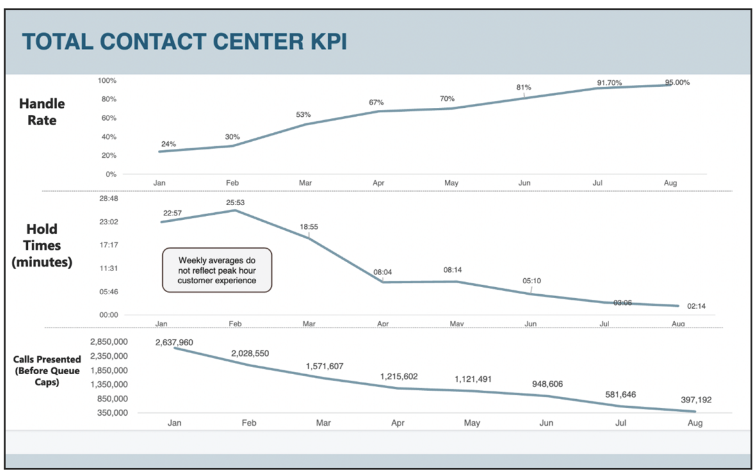
Governor Dewine and ODJFS Director Matt Damschroder gave three very clear objectives and desired outcomes. The first goal was to stop fraudulent claims from being submitted. In early 2021 the state received over 1,000,000 new applications per month for traditional unemployment and the PUA claims. With advice from the private sector and the ODJFS team we were able to deploy a new stack of fraud within 60 days. The results were a reduction in new claims volume of just 25,000 per month, a 97% reduction. Lexis Nexis Fraud solutions suite was one of the key fraud prevention solutions deployed.





Our second goal was to clear the backlog which was approaching 5 million claims issues. We took advantage of prior work completed by InnovateOhio, a data analytics platform deployed by Lt. Governor Jon Husted, who now serves as US Senator Husted. The P3 team engaged SMEs from the private sector and big tech solutions to analyze the millions of unadjudicated claims and segment them based on fraud risks. Within 90 days of the project start, all ‘fraud free’ claims from Ohio citizens had been adjudicated and the proper payments were being sent to recipients in need of benefit payments.

The third goal was to answer the enormous volume of service requests from citizens. Many Ohioans were victims of cybercriminals, while others who needed UI benefits were not being processed because of the backlog generated in part by the criminal activity. During this period the service centers were overwhelmed. Citizens experienced difficulties in getting into the call queue and for those that did, the wait time could be over six hours. Combining the impact of stopping new fraudulent claims, clearing the backlog and deploying new call center solutions, the wait time was reduced to an average of 3 minute hold time.

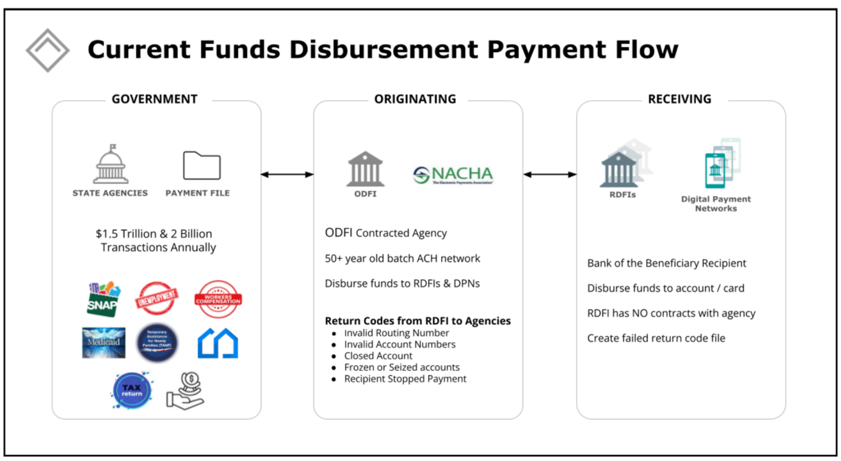


Governor DeWine's vision to seek advice and collaboration with Ohio's largest private sector companies proved to be an outstanding decision. I also want to acknowledge the ODJFS employees who welcomed the support of the P3 team, worked endless hours to deliver and truly cared about every citizen who needed support during this period of time.

Government & Financial Services Collaboration

I want to now focus on an important topic of enabling collaboration between these agencies and the financial services industry. Our team continued to support Ohio for two years. One of the key initiatives launched at the direction of Director Damschroder was to understand if any of the funds disbursed through fraud networks could be recovered. The answer was yes, so please let me explain the process.

We started by confirming our understanding of how money flowed from the initial claim to benefit payments processed through the banking network.



Traditional unemployment and the Pandemic Unemployment Assistance solutions required claim adjudication that included collection of information from the claimant and their employers, as well as collecting prior claim history and conducting fraud prevention checks. The program checks are focused on claimant identity and work verification. Once a claim is approved, the payments are sent to the UI program's bank or ODFI (Originating Depository Financial Institution). There is a contract between the states and the ODFI to support disbursements through direct deposit via the ACH network, debit card processing or check.

The ODFI uses these payment networks to send the funds to what the industry calls RDFI (Receiving Depository Financial Institution). In simplest terms the RDFI is the bank who holds the claimant's checking account. Benefits in every state are disbursed to hundreds of RDFIs. While there are regulatory guidelines that the banks follow in funds flow from ODFI to RDFI, there is no contractual relationship between the state and RDFIs.

Our team analyzed the disbursement of funds to each RDFI from the state. We coordinated outreach to each bank with a focus on the top 25 financial institutions who received funds. All financial services organizations have strong regulatory requirements to prevent funds from flowing to fraud networks or terrorist organizations. Many of these requirements were made more stringent post 911.

The banking industry has invested in advanced analytics, fraud solutions and case managers to prevent fraudulent money flow. However, the banks look at the suspicious activity in an account when there is suspicious payment activity. The bank's fraud teams can see accounts receiving dozens of UI claims, multiple state claims activities, large overseas fund transfers and unusual spending activity. All of this resulted in banks stopping the release of funds.

Our work for Ohio was complex. We worked one-on-one with bank executives, coordinated data sharing between the state and the bank, and confirmed the amount of funds each bank was holding. Before we could enable the funds to be returned to the state the legal teams on both sides had to coordinate agreements that are called hold harmless contracts. Basically, with no contract in place this enabled the bank to return the funds but still be able to recover funds in the event the bank's account holder was a real claimant. As documented in a June 2022 Ohio press release, $397 million in funds were returned from the banking network.

Recommendations for Future Improvements

Based on my experience in this process I have thoughts and recommendations. First, banks and state agencies are both accountable to federal and state regulations. This centers on privacy of claimant information by the state and bank account activity for the bank customers. Every bank we worked with had varying degrees of comfort sharing information without a contract with the agency.

Secondly, the evolution of digital or mobile payment networks, as a result of FinTech innovation, adds a new tier of complexity. Paypal & Venmo had their own fraud prevention teams that returned Ohio nearly $70 million. However, other payment networks were not as mature in their risk prevention and allowed significant funds to flow through them into the hands of fraudsters.

Third, there is an opportunity to establish a digital network that enables sharing of suspicious payment transactions between disbursement agencies and the banking networks. This would enable information sharing on a secure platform to better prevent and accelerate the recovery of funds.

Fourth, the banks follow escheatment law for held funds. This requires the banks to return the funds through Unclaimed Funds guidelines. These vary by state and my understanding is this could be between 3 and 7 years. I'm also unclear who the unclaimed funds would be returned to. It could be in the fraudsters name, returned to the state where the bank is headquartered. I do not have a full understanding of how this would be executed.

Next, I understand that statute of limitations on prosecuting COVID-era pandemic unemployment fraud expires on March 27, 2025. I would encourage you to extend that based on outstanding opportunities. I would encourage the passage of House Bill 1163. This allows states to retain a percentage of the Pandemic Unemployment Assistance funds recovered to support resources and analysis required to successfully complete the recoveries.

Russell Allen has spoken on this topic at NASWA and UWC. We have collaborated with the Secret Services and Federal IG in this work. We have conducted work in multiple other states to perform initial assessments of funds that still could be returned. Opportunities still exist to recover pandemic funds and new policies to prevent cybercriminals from attacking these funds in the future.

Thank you for your attention and commitment to building a stronger, more secure future for our country.

Mr. LAHOOD. Thank you very much.

Lastly, we will recognize Mr. Meyenburg. You are recognized for your opening statement.

STATEMENT OF SHELBY MEYENBURG, UNEMPLOYMENT INSURANCE WORKER, WASHINGTON FEDERATION OF STATE EMPLOYEES

Mr. MEYENBURG. Okay. Good afternoon, Chairman LaHood, Ranking Member Davis, and members of the subcommittee. My name is Shelby Meyenburg. I am an employment service worker in the State of Washington. In this role I also help UI claimants file their benefits. I am a proud member of AFSCME Council 28 and the Washington Federation of State Employees Local 443.

I help Washingtonians file for unemployment insurance and safeguard the UI system against fraud. My job is to get the right benefits to the right people on time.

In 2020 the pandemic hit Washington State quickly. Our state unemployment rate rose from 5.1 percent in March to over 15 percent in April immediately placing a lot of stress on our system. Unlike other states, Washington hired non-permanent staff instead of outsourcing UI work during the pandemic. I was one of those non-permanent staff. At this time, non-permanent staff had received less than half of the normal training for the UI program. It was a chaotic and challenging time where UI claimants were desperate and the caseloads were enormous.

In the spring of '22 I was laid off from my non-permanent position and had to file for unemployment benefits myself. It was a humbling experience to go from processing UI claims to applying for UI. After being laid off, I applied for a permanent position under the state's merit-based personnel system and was hired in July of '22. My evolution from non-permanent to permanent staffer showed me the value of being a highly skilled employment service worker who understands the complexities of the UI program.

UI workers are the first line of defense protecting hard-earned benefits from fraud. We safeguard the system with identity checks, reviewing and securely transmitting personally identifiable information. We help jobless workers make sense of the sometimes confusing language in the UI program. As an example, we let them know when they should file for an appeal.

We resolve complex claims, which takes training, a deep understanding—deep knowledge of the program, persistence and dedication to our mission. This is important work that highly skilled and well-trained UI workers do every day for American workers.

UI workers hired under a merit-based personnel system as required under federal law ensures that the services provided to job seekers and employers across the country are unbiased and high quality. UI workers cannot have any other interest that play other than serving the jobless workers and maintaining the integrity of the UI program.

There are ways to prepare for future surges in unemployment without undermining merit staffing. One solution is for states to cross-train existing merit staff for other programs to process UI claims. I am a cross-trained employment service worker, what we call a UI ambassador. If a state experiences a surge of unemployment claims, these cross-trained merit staff state employees would receive a brief refresher training and be able to hit the ground running in order to help workers and keep our system and communities moving forward.

As you work together on UI reform, I urge that you talk to UI workers directly as they are the subject matter experts. We want to protect the UI system and make sure that it works well enough for everyone and protect the system from fraud. We can accomplish these goals with increased funding for staffing, IT modernization, program improvements, and cooperation between the state and federal levels, not by outsourcing the work much skilled merit-based UI staff.

I would like to thank the chair, ranking member, and members of the subcommittee for the opportunity to testify today.

[The statement of Mr. Meyenburg follows:]

Testimony of Shelby Meyenburg
Member of Washington Federation of State Employees / AFSCME Council 28, Local 443
Before the
Ways and Means Subcommittee on Work and Welfare
U.S. House of Representatives
For the Hearing on
"Time's Running Out: Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers"

February 6, 2025

Good afternoon, Chair LaHood, Ranking Member Davis, and members of the subcommittee. My name is Shelby Meyenburg, thank you for the opportunity to talk to you today about my experience as an Unemployment Insurance (UI) worker in the state of Washington. I am also a proud Member of AFSCME Council 28 and the Washington Federation of State Employees, Local 443. I have held a variety of positions in the Washington state workforce system. I appreciate the opportunity to share my experience administering the UI system during and after the COVID-19 pandemic. My job allows me to help workers as they navigate losing a job and then applying for UI benefits to support themselves and their families. I also provide re-employment services to get them back into a good job. As a UI worker, I both help Washingtonians receive the unemployment insurance benefits they need but also help safeguard the UI system against fraud. My goal is to get the right benefits to the right people on time.

I am here today to share my experience as an Unemployment Insurance (UI) Ambassador for the state of Washington and the lessons I have learned through the pandemic and after. In April 2020, I was transferred into the UI claims center as "non-permanent staff" from a training position. As a reminder, the unemployment rate in the state of Washington was 5.1% in March 2020 and tripled to 15.4% in April 2020. Some workers were transferred into non-permanent staff positions to process UI claims with very little training — at most, two weeks of training. The standard training for the UI program is six to eight weeks but, at that time, we needed to address the urgent needs of workers who had lost their jobs and were facing an unprecedented crisis.

In September 2020, I applied to an opening to work in the UI claims center full-time as a UI Specialist because I saw the need to help workers during the ongoing pandemic. I moved up in February 2021 and became the Unemployment Intake Lead Agent, again as a non-permanent staff. I was laid off from my non-permanent staff position in the spring of 2022 and had to file for unemployment insurance myself. Very soon after my layoff, I applied for a permanent position under the state's merit-based personnel system and was hired back to work in the UI program full-time in July 2022 in that permanent position.

It was a humbling experience to go from processing UI claims to applying for UI myself. While Washington state is among the more generous states for UI benefit levels, we also have a high cost of living. I went from receiving about $1,500 after taxes per pay period to receiving $480 after taxes each week in unemployment benefits. My income was cut by one-third. Even though I keep my living expenses low, I could not afford both my rent and car payment with two weeks of unemployment benefits. This experience hit home for me the importance of helping people access these benefits even if it was not enough. We needed to provide people with the benefits they need when you lose your job and your income.

I hope that when Congress considers reforming the UI program or addressing UI fraud, you see the value in merit staffing in the UI system. We are the foundation of a strong and secure UI system. In my current role, one of the critical ways we safeguard the system is with identity checks. I review documents, including a UI claimant's driver's license, Social Security card, passport, and birth certificate. UI Ambassadors send copies of these documents through our secure portal both to ensure that the claimant's personally identifiable information (PII) is protected and to expedite the claim. Safeguarding a claimant's identity prevents fraud and is one of the trusted responsibilities of a UI Ambassador.

Another vital role of a UI Ambassador is to fix errors and address more complex claims. In a recent case, a UI claimant had reached out to one of our U.S. Senators to help resolve an unemployment insurance claim. This worker had filed for unemployment during the pandemic but had made an error in declaring whether they were "able or available for work," a requirement in the UI program. Because of this problem in a four-year-old UI claim, this worker could not receive UI benefits for a subsequent job loss in 2024. I helped resolve the error made in 2021 so that this worker could receive the UI benefits she qualified for and very much needed in 2024.

This case is just one example of UI workers ensuring that people who qualify for benefits receive those benefits. We help jobless workers make sense of the sometimes-confusing language in the UI program. We let them know when in the process they should file an appeal and more. The problems we saw the during the pandemic continue to come up in the UI system. It is my job to make the process of filing for and receiving unemployment benefits straightforward and fair. Resolving claims like this in a timely manner takes training, a deep knowledge of the program, persistence, and dedication to our mission. This is the important work that highly skilled and well-trained UI workers do every day. Though I had been laid off by the UI program and the early days of processing UI claims in 2020 were hard, I reapplied in 2022 to work in the UI program because I wanted to help people when they need it the most. I knew that my experience could help people during one of the toughest times in their lives. It also made me a believer in having a skilled group of workers administering claims because these UI benefits keep families afloat. Claimants and their families deserve a UI workforce that knows the program and can solve problems.

My evolution in the UI program from a non-permanent staffer to a permanent staffer hired under the merit-based personnel system has helped me see the value in highly skilled staff members who understand the complexities of the UI program. We learned a lot from the pandemic. People like me are the first line of defense protecting hard-earned UI benefits from fraud. UI workers hired under a merit-based personnel system, as required under federal law, ensure that the services provided to jobseekers and employers across the country are unbiased and high-quality. UI workers cannot have any other interests at play other than serving that worker and maintaining the integrity of the UI program.

While Washington state did not outsource UI work during the pandemic, the temporary privatization of UI administration — allowed only during the pandemic — caused serious problems nationwide. Many states outsourced UI administration to companies that hired low-paid, poorly trained staff to administer traditional and new temporary UI programs. This led to poor service and long payment delays for claimants. It was a tough time for our country but the inadequate investments in the UI system over decades preceding the pandemic and the temporary privatization in the early days of the pandemic set states up to fail. UI workers serve people who may be in crisis. Many UI applicants and claimants have lost everything in their lives and are desperate for help. To do our jobs effectively, we have to be highly skilled and well-trained. This work is critical to our economy and our country. It should not be automated, assigned to staff with substandard training, or outsourced.

Looking forward, one solution to prepare for future recessions is to cross-train existing staff from other programs within the state government workforce to assist in UI work. This practice was a critical part of the UI-Employment Service partnership for decades but has diminished over the past 20 to 30 years. With cross-training, the states will have access to a pool of potential UI workers who can come in to help on a temporary basis when a surge of unemployment claims affects a state. Cross-training other state employees to handle UI claims allows a state to meet the merit-staffing requirements under federal law and serve the jobless workers who need the UI system to work efficiently. These cross-trained merit-staffed state employees would receive a brief refresher training and then — when necessary — would hit the ground running to work on cases that otherwise might have brought an American Job Center to a standstill. With these cross-trained workers, we maintain a high quality of staff working in the UI program, beneficiaries receive their needed benefits on time, the local economy continues to run, and workers have the support they need while they look for a new job.

As you work together to fund the UI system and consider needed reforms, I urge you to support greater investment in the UI system. I also urge you to talk to UI workers around the country. We administer the system and see the challenges day to day. We want the UI system to work well for everyone and to protect the system from fraud. We can accomplish all of these goals with increased funding and cooperation between the state and federal levels—not by outsourcing the work of skilled, merit-based UI staff.

I thank the Chairman, Ranking Member and Members of the Committee for the opportunity to testify today.

Mr. LAHOOD. Thank you, Mr. Meyenburg, for your testimony here today.

I will now move to questions from the committee members to our panelists today. Again, grateful for your contributions here today to this important topic. I will now recognize myself for my questioning.

I am going to start with you, Mr. Talcove. For years this committee has been sounding the alarm really on fraud from organized criminal organizations, particularly from a number of hostile nations, Russia, China, and others. As you saw in my opening statement, I referred to a case in Pennsylvania involving a defendant caught laundering money back to China. These cases are complex. They are nuanced, involve federal crimes, but they also raise serious national security concerns. Mr. Talcove, can you explain the current state of the UI fraud and how international criminal organizations are continuing to be associated with fraudulent activity.

Mr. TALCOVE. Yeah. Thank you very much for the question. It is interesting in that I was just out in California, in L.A. this week, and the fires are going there, and you are now seeing the same groups that stole at scale in California $32.6 billion from the unemployment insurance program, they are now stealing from the disaster unemployment insurance, the disaster SNAP program.

So what these criminal groups do, and in particular China, Russia, Nigeria, Romania, is they use stolen information. Some of it they collect it directly. For example, China, when they had the OPM breach years ago, they have all that information, and they file claims on behalf of legitimate individuals in the afflicted areas, and then they use that money for just terrible things.

And what I find incredibly frustrating having followed fraud since Hurricane Katrina in 2006, it is the same groups doing the same thing. And if you just apply data and analytics, just as Mr. Ficke was showing on those charts, you can stop it, but we continue to allow these groups to steal. They use the money for horrible things, child trafficking. They use it for drugs in our communities. They use it for terrorism. So I would like to tell you that things are better today, but just watching what is going on in California, seeing what happened in North Carolina, same groups, same playbook, stealing at scale.

Mr. LAHOOD. Thank you for that. Just to follow up, you know, in terms of criminal prosecutions that have been successful, are there any that come to mind that have had somewhat of a deterrent effect on continuing criminal activity?

Mr. TALCOVE. Yeah. So I would give Washington State credit. During the pandemic they were the first group to get hit by a Nigerian fraud organization. They actually did capture the ringleader in that. But for the most part, these people do not live in this country. They will never come to this country. They are protected by their states, and that is why you have to protect things on the front end. You can't let the money out.

Now, if it does go out, remember my estimate, $250 billion was stolen, $5 billion recovered. If it does go out, state and local law enforcement can't do it. You need the Secret Service and you need the FBI, because these are complicated multifaceted criminal enterprises.

Mr. LAHOOD. Thank you for that. I am going to turn now to Ms. Hui. In your testimony, you mentioned the Missouri Department of Labor. They currently have a UI program that's effective in preventing improper payments and providing high quality re-employment services. Last Congress Ranking Member Davis and I worked on a bill called the Bridge to Workers Act that was passed into law to provide the flexibility states need to strengthen those connections to employment. Can you talk about the work with re-employment services and how you see that growing and developing into a core part of unemployment programing in the future.

Ms. HUI. Certainly. Thank you for the opportunity to answer your question, and thank you, Chairman LaHood and Ranking Member Davis, for actually getting the Bridge for Workers Act passed. It has really afforded states a great deal of flexibility to approach individuals that have potentially more challenges to actually getting back to work. Missouri was one of the few states that actually kept our re-employment and eligibility assessment program, RESEA, going during the pandemic. And by having this expansion of flexibility to allow for states to better address what their local workforce needs are and basically providing targeted professional workforce development services to individuals, originally it was for folks who are most likely to exhaust their benefits, but now, again, it allows states to really be able to better fit what their local state needs are.

This program in particular has the built-in component that when we require somebody to report for these required workforce services, if they are utilized unemployment benefits, their benefits are not continued if they don't report for those. So it builds in that incentive, again, to make sure that workforce services that are needed are actually being taken and, again, to stress the re-employment roots of unemployment itself, right? Because we really see that unemployment and workforce services as part of the two sides to the same coin. It is really about making sure that workers have the services and support needed to get back to sustainable employment.

Mr. LAHOOD. Thank you for that, Ms. Hui.

Mr. Ficke, in your testimony, you described how you were recruited by Governor DeWine in Ohio to help right the ship recovering over $400 million in fraudulent benefits held by banks and automated payment networks. I am particularly interested in that success story, because according to a report issued by the Illinois Auditor General in my home state, we lost approximately $5 billion and only $189 million has been recovered. Can you talk about how you were able to turn that around in Ohio through your UI program and recoup the funds.

And then maybe before you answer that, we have heard the expression "pay and chase." Can you explain for the members of the Committee what that means, and what that is.

Mr. FICKE. Well, first of all, with the pay and chase, I might defer that to——

Mr. LAHOOD. Well, maybe answer my question on how you did that, and I will have Mr. Talcove answer the pay and chase.

Mr. FICKE. Absolutely. Thank you for your question. I think it is really important to understand how much manual effort and personnel effort went into actually discovering these funds. At the very early phases of our opportunities to recover funds, we partnered very well with the leadership of Ohio Jobs and Family Services, and we would ask a simple question. Is there still money out in the networks to be able to do this.

I think it is really important fundamentally to understand that in the UI claims environment for approval on adjudication, there is a lot of work done to identify an individual. In the banking industry, when payments flow through, especially since 9/11, post that period, there is regulation that is also very tightly covered by the banking industry, financial services that actually require them to not allow money to get out of banks into the hands of fraudsters. The one looks at identity and the banking system can look at activity within a bank within specifically a bank account.

In a very simplistic level, it is looking at multiple unemployment claims from multiple states going into the same accounts, unusual spending happening within those financial service institution accounts, large overseas transactions that actually are pulling money out of a consolidation to pull them overseas. That effort has resulted in the U.S. banking industry setting up multiple advanced analytics programs, case workers, and processes to actually prevent that from happening.

The difficult work we had in that is that we are actually required at that point to work with all the banks who received funds. They didn't have a specific contractual relationship with each individual state because they were the receiving banks. Simplifying it, it basically means that is the bank of the claimant who was actually getting the information. And in our case, that required us to go beyond the individual head of ACH or operations leaders and get to the newly established or recently established groups within the banks that actually allowed those fraud measures to be kept in place. We were able to find the money. We were able to confirm it. We actually coordinated activities to compare data between fraudulent—potential fraudulent claims at the state with fraudulent account activity, identify what was remaining.

What ended up happening in that case is that we actually then had to have legal agreements, sometimes referred as hold harmless agreements, limitations of liability that actually had to be executed post this whole process happening. Many banks cooperated.

I will give credit to ODJFS, because Director Damschroder made it a clear initiative he wanted those funds back. We prioritized it. They invested people and time and energy into it, and we got great cooperation from many financial institutions.

Mr. LAHOOD. Thank you for that. Maybe quickly, Mr. Talcove, you have used the expression "pay and chase." Tell members of our audience and the committee members what that means.

Mr. TALCOVE. I believe it is a false paradigm that says that you can't have speed in security, and I would just reference that most of you have probably used Amazon. You placed an order, it gets there quickly, and everything works out really well for you.

In government, sometimes what they do is they would rather just pay it really quickly and then try to get the money back later. And as you noted in your opening statement, only $5 billion of the $250 billion has been returned.

The second point I want to make on that, I would encourage you to try to go and look on your state's UI page and try to fill out an unemployment insurance form. Sometimes the overpayments or underpayments are related to the complexities of the forms, and it really does create a whole set of backlogs for those that are administering the programs. Those forms are complicated.

Mr. LAHOOD. Thank you for that. I will now recognize the ranking member Mr. Davis for his questions.

Mr. DAVIS. Thank you, Mr. Chairman, and thanks to all of our witnesses.

Mr. Meyenburg, let me ask you, given that Elon Musk and hackers with no security training, our policy expertise now have unlimited access to confidential financial and health data for workers and businesses. I am going to talk a little bit about how we are supposed to safeguard data. As a front-line UI worker, you collect confidential identity and banking information. What kind of training do you have to keep that data safe and private?

Mr. MEYENBURG. So during initial UI worker training, there is a heavy emphasis on how to properly conduct identity information verification. Throughout the entire process, six to eight weeks, you are constantly having to do that process. There is role playing scenarios that covers a lot of topics, and during all of those you do have to conduct the correct identification verification.

There is several reasons why a UI claimant's identity would be flagged for further review. If I clearly spot fake information or misdocumented information, I have to send that up for review. If a claimant's personal information does not match what is on the state's driver's license system, that one's also flagged for review by the fraud team. We work together to safeguard the UI benefits from fraud and we also ensure that we are using our training and experience to help claimants who have challenges accessing benefits because they are not tech savvy. This is why the role of a UI ambassador who can see through those challenges to help a worker in need is so critical.

Mr. DAVIS. Why is this information safer when we limit access to public employees like yourself?

Mr. MEYENBURG. It is safer because we have no ulterior motive. We are there to help the people of Washington State in my case. We don't have to worry about those expectations of a quota system, or anything like that. We meet the people where they are at and we help them where they are at.

Mr. DAVIS. Let me just re-emphasize that my democratic colleagues and I are strongly committed to good service by workers like yourself and especially people who have no need to access their earned unemployment benefits. We are committed to preventing fraud and safeguarding the UI trust fund. I am grateful to you and your colleagues and especially to AFSCME Council 31 workers in Illinois for their critical work. Is there anything that we have to give up in order to do both, provide the good service and have no other purpose for doing it, ulterior motives?

Mr. MEYENBURG. I don't believe so. I believe we can accomplish both goals at the same time. In fact, this is built into our process. Before we talked to a UI claimant about their benefits, we verify their identity every single time we talk with an individual, no exceptions. After identification, we can then provide excellent customer service, whether that be filing an initial claim or reviewing an active claim.

Mr. DAVIS. Let me again just thank you and your workforce and your colleagues for the work that you have done and the faith and trust that we have in what it is that you do.

Thank you, Mr. Chairman, and I yield back.

Mr. LAHOOD. Thank you, Mr. Davis. I will now recognize one of our new numbers, Rudy Yakym, of South Bend, Indiana.

Mr. YAKYM. Thank you, Mr. Chairman, and thank you to our witnesses for being here today. Unemployment insurance improper payments and fraud ran rampant during the COVID–19 pandemic. The Government Accountability Office, GAO, estimates that pandemic unemployment fraud totaled $135 billion. That is about 15 percent of total UI benefits paid during the pandemic. But the Department of Labor's Inspector General says that number is at least $191 billion.

Even worse, outside experts estimate that the total could be upwards of $400 billion. California alone accounts for $20 to $33 billion of fraudulent pandemic UI payments. One estimate put the state's improper payment rate at nearly 37 percent during the first six months of the pandemic. No business could survive allowing for over one third of payments that are made to be fraudulent. We should expect more of our government and of our states. We should expect that fraud—and we know that fraud isn't just money going out the door. It is money that undermines the faith that the American people have in the system and the confidence that Congress has in states to manage federal resources.

Hardworking measures in my district don't want their taxpayer dollars going to subsidize California or any other state with such lax payment controls unless the state implements reforms, upgrades systems, and demonstrates a commitment to chasing down fraudsters. Despite these eye-popping fraud numbers, we have only recovered about $5 billion of it or less than 4 percent. The statute of limitations to prosecute these cases expires at the end of March. Congress must extend that deadline so that we can continue unwinding these criminal rings and hold the fraudsters accountable.

One of our most important responsibilities as members of Congress is to be good stewards of taxpayer money, because after all, the only money that we in the federal government have is money that we take from the American people in the form of taxes. Allowing this level of fraud to occur and not taking every possible step to recover these funds and these fraudulent payments would be irresponsible.

Mr. Chairman, I ask that this email from the DOJ pertaining to uncharged UI fund matters be entered into the record.

Mr. LAHOOD. Without objection.

From: Primosch, Anna (OLA)
To: Vincent, Cheryl
Cc: Schroeder, Ted (OLA); Thomas, Bradley
Subject: RE: CARES Act UI Fraud Statute of Limitation Chat
Date: Friday, January 31, 2025 4:24:26 PM
Attachments: image001.png
image002.png
image003.png
image004.png

Hi Cheryl,

The Executive Office for United States Attorneys (EOUSA), which leads the Department's COVID Fraud Enforcement Task Force, provided the following answers to your questions:

1. Based upon EOUSA's informal case tracking, which is self-reported by Assistant U.S. Attorneys, U.S. Attorney's Offices have charged over 600 criminal UI fraud cases with approximate associated losses of over $300 million.
2. As of January 28, 2025, the U.S. Attorneys' Case Management System shows 1,648 open, uncharged criminal matters identified with the COVID-19 Fraud national initiative code. This code is used to identify all COVID-19 fraud matters, regardless of type [i.e. not limited to UI fraud]. This does not include (a) any criminal matters that are exclusively handled by the Criminal, Tax, or other Main Justice division; (b) open criminal investigations at the agency level that have not yet been presented / accepted at a U.S. Attorney's Office; (c) open uncharged civil cases.

I hope this information is helpful. Please let me know if you need anything else. We are in the process of internally clearing the TA you requested on your COVID UI fraud bill, and we will keep you posted (we're tracking the impending expiration of the SOL on March 27).

Thanks and have a good weekend,

Anna

From: Vincent, Cheryl <Cheryl.Vincent@mail.house.gov>
Sent: Wednesday, January 29, 2025 4:10 PM
To: Primosch, Anna (OLA) <Anna.Primosch@usdoj.gov>
Cc: Schroeder, Ted (OLA) <Ted.Schroeder@usdoj.gov>; Thomas, Bradley <Bradley.Thomas@mail.house.gov>
Subject: [EXTERNAL] RE: CARES Act UI Fraud Statute of Limitation Chat

Thanks! Both of those would be helpful, if I can only have one then #2 is the priority.

Cheryl Vincent | Staff Director

Mr. YAKYM. Thank you.

Mr. Talcove, as of January 28, 2025, the Department of Justice had 1,648 open cases. These are uncharged criminal matters relating to COVID–19 fraud. The Department of Labor's Inspector General has shown approximately 157,000 open UI fraud complaints assigned to its hotline office. Are you surprised about the sheer number of unemployment insurance fraud cases our federal law enforcement agencies are actively investigating?

Mr. TALCOVE. Thank you so much for the question. I want to start with I really believe in unemployment insurance. The number that was lost was approximately $250 billion across the country, and California was ground zero for it. Unfortunately, because they paid some of the highest benefits in the country and their then-Commissioner Julie Su had some of the least amount of safeguards in place.

I am actually surprised that there are that many open cases, because I truly believe a lot of the fraud took place and individuals don't even know their information was used. As I mentioned in my testimony, a lot of this happened with criminal groups, both domestic and transnational, who use the stolen PII that went into these eligibility determination systems that knew how to manipulate them better than your constituents. And to this day, we were talking about it before, you had individuals that got a notice from the State of California, the State of Ohio, saying you know, you got your benefits, and those people threw those notes away because they never got benefits. So I am not surprised by that.

But I also want to note that it is not just unemployment insurance. It is the SNAP program. It is the other programs, including rental assistance. Anywhere where the government is providing a check, these criminal groups are now working at scale.

Mr. YAKYM. Thank you. And briefly, Mr. Talcove, do you believe that there is still more unemployment fraud carried over from the pandemic out there that could result in prosecution or recouping funds if we were to extend the statute of limitations?

Mr. TALCOVE. Yes, I think there is.

Mr. YAKYM. Thank you. Mr. Chairman, I yield back.

Mr. LAHOOD. Thank you, Mr. Yakym.

Recognize Ms. Chu of California.

Ms. CHU. Well, first let me say that I can't believe that Republicans are holding a hearing purportedly about going after pandemic-related fraud in the unemployment insurance program without addressing the fact that a few days ago President Trump illegally fired the inspector general who is responsible for doing that very work. Inspector General Larry Turner was a well-respected non-partisan Senate-confirmed professional. His leadership investigating UI fraud had already resulted in over 2,000 individuals charged, more than 1,400 convictions and $1.1 billion in taxpayer dollars recovered. And IG Turner even testified as a witness for the Republican majority for the hearing they held on UI fraud back in 2023 during which time he warned that despite the office's successes, insufficient funding from Congress was limiting their investigative capacity and causing lost opportunities to hold fraudsters accountable. The Republican majority still hasn't addressed that funding shortfall, and now President Trump has fired the person responsible for reducing that fraud.

If Republicans want to better combat and prosecute UI fraud, we need to push back against President Trump's illegal firing of our nation's top UI fraud investigator and get Mr. Turner and other independent non-partisan inspector generals across government whom the President illegally removed back on the job.

And then if we have the fraud, who is going to do the work of actually deterring it? Well, it would be our federal employees. And yet the Trump administration's undermining of the federal workforce goes far beyond inspector generals. It is part of the systematic attempt to politicize the civil service and make services worse for everyday Americans who rely on safety net programs like unemployment insurance.

Ms. CHU. Those attacks on our Civil Service include mass emails to almost all federal employees asking them to resign and then threatening layoffs if not enough employees comply with this.

It includes the administration's proposal to politicize the federal workforce by stripping nonpartisan federal employees of their job protections to make it easier to fire and replace them with Trump loyalists.

And it includes putting tens of thousands of employees on administrative leave without cause.

We have career civil servants for a reason. They are professionals with expertise who are essential to the successful operation of federal programs and benefits for the American people.

And that includes the staff responsible for investigating UI fraud.

In fact, Inspector General Turner led a team of over 300 federal employees, including criminal investigators, auditors, attorneys, and other subject matter experts dedicated to combatting waste and fraud in all of the Department of Labor's programs including UI.

The Trump administration's actions put us at risk of losing this expertise, and it is jeopardizing our able to successfully continue going after this fraud.

I am also concerned that the Trump administration's threats to fire federal employees will lead to further outsourcing of core government responsibilities.

We saw during the pandemic what happened when States outsourced their UI work to untrained contractors, and that, in some cases, actually caused waste and fraud in the program by giving employers incorrect information, resulting in overpayments, or by exposing workers' sensitive information to fraud rings.

Now, Mr. Meyenburg, you testified about the risks of outsourcing during the pandemic. Can you expand on that and why investing in an experienced government workforce leads to better outcomes than outsourcing to contractors?

Mr. MEYENBURG. Yes, I believe it comes down to two different things—it is training and the mission. With dedicated staff that have dedicated time for implementing robust training programs, this offers the ability to highlight those safeguards and make sure that they are utilized in the proper way.

Ms. CHU. And could you have more waste and fraud happening with the contractors?

Mr. MEYENBURG. Potentially. I would say potentially.

Ms. CHU. Yes. Thank you. I yield back.

Mr. LAHOOD. Thank you.

Pursuant to committee practice, we will now move to 2-to-1 questioning. I will recognize a new member of the Committee on Ways and Means, Max Miller of Ohio.

Mr. MILLER. Thank you, Chairman LaHood and Ranking Member Davis, and excuse my voice. Thank you for the opportunity to hold this important hearing.

We must make every effort to equip and empower Americans to reenter the workforce and unlock the full potential of our Nation's economy.

To achieve that, it is imperative that we safeguard the integrity of our employment safety net. Since coming to Congress, I have been a strong proponent of building our Nation's future workforce by providing individuals with opportunities to acquire qualifying work skills, and keep the United States at the forefront of innovation and productivity.

Like many, I am very concerned this view I have heard from a lot of our colleagues on this side of aisle on the unprecedented fraud that occurred during the pandemic, which the GAO has estimated, which we have heard a lot today, that anywhere between $100 billion to $135 billion and possibly more.

Just in northeast Ohio alone, where I am from, the United States Attorney for the Northern District of the State sentenced perpetrators who stole millions of dollars from the program intended to assist the unemployed, which was all over our area.

This commitment to prosecute and to hold criminals responsible demonstrates that we must continue to be vigilant of those who try to scam federal leave programs and waste our tax dollars, including providing federal investigators with the continued authority to prosecute those stealing from American workers.

It is my understanding that 2,000 individuals have been prosecuted with $47 billion—I will say it again—$47 billion in potential fraud to date. But there are at least 157,000 open cases and much more to be done that are unaccounted for at this moment in time to date.

Fortunately, efforts such as those undertaken by my home State of Ohio and others will help their respective States' unemployment system stop unemployment insurance fraud before it starts and get resources to eligible workers in a timely and accurate fashion. And I believe that is what everyone would like regardless of political affiliation.

Mr. Ficke, as you testified, the State of Ohio was experiencing a high volume of fraudulent claims. In fact, the unadjudicated claims backlog was growing exponentially, and as you know, Ohio's governor made a decision to engage the private sector for support, including the Ohio Business Roundtable's members' expertise that you had mentioned earlier, with a goal to stop fraudulent claims, reduce the backlog, and reengineer the customer experience. I understand the project's results exceeded expectations.

How can such public and private partnerships be effective in reducing fraud, safeguarding public resources, and allowing funds to be targeted to those who are truly in need?

Mr. FICKE. Thank you for the question. You know, in Ohio's case, I think that some of the key factors involved is collaboration across agencies, across state and federal resources, especially when it comes to, as an example, the prosecution of those cases.

If you look at the amount of work that Ohio Department of Jobs and Family Services did, they focused a lot on advanced analytics, taking advantage of Big Data technology programs to really segment off the claims that actually were fraud-free, so that we could actually get to the point of real citizens in need were getting paid.

And as we—and the other thing I think that the State did an excellent job at is, the claims that were submitted that were actually—had significant amount of fraud indicators on them, were all processed, and they were all ultimately looked at and freed.

In the long run, I think the other thing that was really important was taking all that advanced analytics and data and actually providing it to the law enforcement sides to actually enable the actual prosecution with good data and with things that go with it.

I think it is very important, and it is a core part of my testimony, is the collaboration between the financial services industry and the unemployment agencies.

There is lots of really important analytics work that has been done in both of those worlds that actually required the—and can provide a collaborative effort to go between those.

The work that NASWA has done around the Integrity Center, I think, is very important, and Lieutenant Governor Husted's focus on advanced analytics for the State of Ohio clearly put Ohio in a very good position coming into this at a time when in Ohio's case, they had to stand up a brand-new system for the pandemic unemployment assistance programs that went with it.

So collaboration, advanced analytics, and really working with some of the key private sector organizations to enable that, I think, is critical. Thank you.

Mr. MILLER. Thank you, Mr. Ficke, and I just want to thank you again for all the work you do in my home state, in our home state. It is very much needed, and just thank you again from an Ohioan to another Ohioan.

Mr. Chairman, I yield back.

Mr. LAHOOD. Thank you, Mr. Miller.

I now recognize Mr. Bean of northern Florida. Welcome.

Mr. BEAN. Thank you very much, Mr. Chairman. Good afternoon to you, and good afternoon to you Work and Welfare Committee family. I am one of the new guys. It is an honor to be here.

I was sent to Congress. I believe one of the reasons that northeast Florida sent me to Congress was, I want to go after spending. I think we have an out-of-control government that just spends far more money than it has.

And so I am a man on a mission, a man on a mission, to fight fraud, abuse, waste, and to get spending under control.

So, Mr. Chairman, I want to thank you for your draft selection in allowing me to serve.

Ranking Member Davis, it is an honor to be with you as well.

My first question—well, first of all, Mr. Talcove, I appreciate you. You have actually mentioned, anywhere government is giving away checks, you will find fraud, and, indeed, we did that.

I come from the Small Business Committee, where we did the PPP program and the EIDL loan program, and we have reports that 23 percent—over 1 in 5 loans that we made back then are pure fraud, not somebody making a mistake on an application, not somebody checking the wrong box, but fraudsters that had the sole intent of stealing our money.

We actually had an administrator come before us with the Biden administration and said, you know, it might be too much, maybe we just need to all let it go.

I say no, the American people say no, and so we want our money back. I actually filed the bill "We Want Our Money Back" to not let anything go. We want all of our money back.

We heard from fraudsters that used Barbie dolls to take a picture. We had a program, a FinTech that administered the program that would take a picture of you just to make sure you are an individual person, and the program fraudsters could take a Barbie doll and stick it in front of a webcam and the program said approved, you are approved for a loan.

So we called it Swindler Barbie. A new Barbie is in town, Swindler Barbie. Ken got in on it too by the way, of people stealing money.

So the first question goes to you, Mr. Chairman. Where are we on the statute of limitations? How can we make sure that we don't let it go, that we want our money back, and we are going after fraudsters? Where does that stand? Who is running it? Who is in the lead? What is going on?

Mr. LAHOOD. Well, thanks for the question, Congressman Bean. So as was alluded to by the witnesses and a number of us today, we are coming up on the March 26th date where the statute of limitations will expire. So we have legislation that has been introduced that will be marked up to extend that statute of limitations, so we can go after the fraudsters and get to the criminal elements of this and make sure that we get that money recouped for taxpayers.

Mr. BEAN. Amen, amen, we are on schedule, we are on flight. It is a very tricky thing.

So you and Mr. Davis last year did a program that is called the Reemployment Services and Eligibility Assessment, the RESEA, which really was to help prevent fraud and designate support to those who need it.

Does anybody know about that?

Mr. Talcove, are you aware of that? Did that program work, did it work with the intent of delivering help to people that needed it but not the fraudsters? Good program?

Mr. TALCOVE. Unfortunately, I am not aware of that program.

Mr. BEAN. Ms. Hui.

Ms. HUI. Yeah, so that program really allows for local workforce boards and other professionals who are working with individuals who are currently getting unemployment benefits to really——

Mr. BEAN. Did it prevent fraud or help fraud? Did it help or not?

Ms. HUI. I think it does help with fraud because you actually have to show up in person or virtually to actually do an employment about workforce development. So there is that verification and engagement, and we feel that those more personalized service will result in better workforce outcomes, more sustained employment for those individuals.

Mr. BEAN. Great.

Ms. HUI. So there is that that individual touch to that. So if someone is getting that benefit, they are also then required to either report in person or do the virtual visit.

Mr. BEAN. So it has given some benefits.

Mr. Talcove, I know we got time. Everything is in a hurry here. We got to boogie.

What do we need to do? I helped launch a DOGE. I think some of us up here are part of the DOGE caucus, to say, we have got to—enough, enough with the stealing of our money, enough with the fraud, waste, and abuse.

I think American taxpayers are celebrating some of the early wins that we have discovered, fraud and abuse.

Where should we start? Where should this committee start to say enough with the waste, fraud, and abuse?

Mr. TALCOVE. It is three things. It is front-end identity verification, it is no more self-reported information, and it is managing the back-end to beneficiaries.

Mr. BEAN. Three small hurdles. It doesn't sound like it is that hard. It shouldn't be that——

Mr. TALCOVE. The private sector does it every day. Their fraud rate is 3 percent. The public sector is 20 percent.

Mr. BEAN. Thank you. Thank you very much.

Witnesses, thank you so much.

Mr. Chairman, I yield back.

Mr. LAHOOD. Thank you. I will now recognize Ms. Moore of Wisconsin.

Ms. MOORE. Thank you so much, Mr. Chairman, and I want to thank our ranking member and all of our witnesses for being here today.

I did have a conflict in my schedule, so I was unable to be here an hour ago, but I did have an opportunity to review your testimony, and I appreciate your appearance here today.

I want to welcome particularly Mr. Talcove to the Ways and Means Committee. Are you a member? Is he a member of the Ways and Means Committee now.

I am talking about my new colleague here.

Mr. LAHOOD. Oh, Mr. Bean?

Ms. MOORE. Mr. Bean.

Mr. BEAN. Hey there.

Ms. MOORE. Hi. Welcome to the Ways and Means Committee. Your enthusiasm, of course, is very welcome. And I am learning now about the DOGE caucus and your efforts to reduce waste, abuse, and fraud.

So I guess what I am concerned about, Mr. Talcove, is, if we are indeed going to combat fraud and waste, how does firing the Inspector General of the Department of Labor contributing to this?

I mean, this is a person who successfully prosecuted 1,400 cases, and, of course everybody on the committee would like to see fraud reduced. So how can we expect to do that without an Inspector General on board?

Mr. TALCOVE. If you go back to—and hopefully you read my opening statement—I think the biggest challenge we have is, we don't want to pay and chase. What we want to do is, we want to prevent this at the front end. We want to use——

Ms. MOORE. Okay. Okay. Thank you for that. I don't have a lot of time. So, your notion is that this DOGE caucus and Mr. Musk, the billionaire, going in, is an effective strategy for start—we don't know exactly what he is doing. And I checked with the Speaker of the House. He also has no idea what they are doing.

So, what information do you have to provide the subcommittee to demonstrate that this is indeed a better strategy than having an Inspector General on the back end? What are they doing that is making them more effective?

Mr. TALCOVE. I have nothing to do with the DOGE. I don't know what they are doing.

Ms. MOORE. So, you don't know what they are doing?

Mr. TALCOVE. No, ma'am.

Ms. MOORE. Okay. But somehow you feel like the inspectors general is not a good strategy. Okay.

Mr. Talcove, you also recommended eliminating broad-based categorical eligibility. You know, just like an infant born at 1 pound, 2 ounces, for example, is categorically eligible for Medicaid because they are disabled. Their mother might also be eligible for WIC or for SNAP.

Why do you think disconnecting and making it inconvenient for them would be helpful, particularly since our having disconnected these benefits has cost $2.3 billion in administrative expenses over 5 years?

Mr. TALCOVE. So during the pandemic, I saw over a trillion dollars of taxpayer money get stolen, and unfortunately, by having broad-based eligibility determination in place, the criminals were stealing at scale, and they were impacting legitimate individuals that live in Wisconsin, that live in Illinois. It created a huge opportunity for them to exploit the system.

Ms. MOORE. So, you just punish the eligible people, like the 99 percent who are eligible, having them run all over the place? You got your 1 pound, 2 ounce baby, and you got to go to five offices to get your benefit so that you can—okay, I get it.

Mr. Meyenburg, we are talking about accountability a lot. Can you explain to me how an unelected, unaccountable billionaire who has accessed this personal information with, I guess, microwave security clearances for his team, how is—and, you know, sticking thumb drives in the sensitive information—how is this appropriate?

Mr. MEYENBURG. I honestly have no idea. I am not even allowed to stick a thumb drive into my own computer to copy any data over. So I don't know why they would have access to that.

Ms. MOORE. Mr. Chairman, my time is winding down, but I do appreciate your hearing from me.

Mr. Ranking Member, I thank you for your leadership as well, and I thank the witnesses, and I yield back.

Mr. LAHOOD. Thank you, Ms. Moore.

I will now recognize Nathaniel Moran, a new member of the Ways and Means Committee, a new member of the subcommittee, from east Texas. Welcome.

Mr. MORAN. Thank you, Mr. Chairman. I look forward to being part of the subcommittee and the full Ways and Means Committee this next session.

I have got a number of questions based on the testimony that has been given here today. I wanted to, and I am prepared to, talk about foreign adversaries and their role in the unemployment insurance fraud issue, but let me start with this.

Mr. Talcove, I think you said this earlier. Your quote was, "It is the same groups running the same playbook, stealing at scale." And you even gave some examples of after certain disasters and you said, "We need to use data and analytics to effectively prevent some of this."

I want you to go back though because your three recommendations were: apply ID verification at the front end, end self-certification, and continuously authenticate beneficiaries.

And I love that because it really is front-end oriented, but be more specific when you talk about applying ID verification. I mean, how onerous would this be, or what kind of verification are we talking about, to be able to make sure that before the money goes out—because I agree with you and I will come back around to this in a second. Once it goes out, it is so hard to get back. So we need to make sure that every dollar that goes out is the appropriate dollar. How do we just do some simply ID verification on the front end?

Mr. TALCOVE. It happens every single day. Every single one of you goes through that identity-verification process when you go to your bank, when you use Amazon, when you go online to do e-commerce.

And the great thing about the technology today is, you don't even know it is happening, right? Think about it. You are at the gas station, you put your credit card in, and all of a sudden you get a text on your phone, and it says, Congressman, are you really in Washington, D.C.?

So that technology is used in the private sector every single day.

One of my frustrations is, government seems to use this thing called NIST 863–2, I think. It was created in 2017. It is complicated. It is hard. Nobody in the private sector uses it.

So the technology is out there every single day, and we all use it. It is just different in government.

Mr. MORAN. And you are making the exact point that I was hoping would be brought out here, that it is easy. It is not that difficult. In fact, today I got one of those texts from my bank, asking me if a particular charge, an $85 charge, was, in fact, me using that charge. All I had to do was respond yes, and we are good to go.

So I think there is an easier way, a more effective way for us to stop the fraud on the front end, and certainly it is going to benefit us on the back end because we have got a number of those cases that are out there, that we need to prosecute.

But I am a little bit concerned, I will just tell you, about the return on investment, the cost-benefit analysis of doing that.

What are the size of the claims, and I will give this to all three of the witnesses—Ms. Hui, Mr. Ficke, and Mr. Talcove—what is the average size of the claim that we are dealing with once we extend this statute of limitations if we are able to do that? And what is the cost for actually moving forward to prosecute those claims?

Mr. TALCOVE. So what I would say is, I wouldn't look at the average size of the claims. I would look at the criminal groups. Some of the groups, the China group, APT41, Scattered Canary, you are talking literally hundreds of millions of dollars, but you need sophisticated law enforcement at the federal level, agencies like the Secret Service, who have been outstanding in this area.

So it is worth it, but you have to get to these large fraud rings, primarily located overseas.

Mr. MORAN. Yeah, I have got a financial crimes investigation center for the State of Texas located in my hometown of Tyler, and they chase after these groups that do this, and it is, it is the same groups moving about, but using the same technologies and the same methodology.

Ms. Hui, you were talking about the stealing of personal identification information on the front end which gives them the gateway to steal and to create fraud. How are they doing that? How are they obtaining the personal identification information of American citizens?

Ms. HUI. They just buy it off the dark web. I mean, with all these different data breaches that have happened, it is really kind of open season on the dark web and purchasing legitimate personally identifiable information, and therefore, you know, you can—at least in Missouri, you can get in perhaps and file a claim, but we do have flags within the application that then clue us into there is something not quite right, right?

And the partnerships, both between government agencies and private sector, whether it is a vendor like Mr. Talcove's or association like Mr. Ficke's, it is really important that all the partnerships across the board work together and understand what may be some limitations but also challenges and opportunities.

I think the biggest thing for us to realize, though, is that it is not a one-and-done situation, like, this, if you don't accept that update on your operating system, it is a paper weight, an expensive paper weight, right.

So we have to adopt that mentality when it comes to protecting taxpayer dollars that are invested, whether it is a UI trust fund or any other beneficiary fund. We want to make sure the eligible people are getting the benefit.

Mr. MORAN. Yeah, I agree.

And, Mr. Chairman, I see my time is over. I didn't even get to my foreign adversary questions. I am part the China Select Committee, and I will tell you, it is really concerning to me that China is at the forefront of this, of stealing our personal information and then being part of obtaining these dollars from American taxpayers, using it against us. It is a national security issue in my opinion.

Mr. Chairman, I yield back.

Mr. LAHOOD. Thank you, Mr. Moran.

I recognize Mr. Evans of Pennsylvania.

Mr. EVANS. Thank you, Mr. Chairman and Ranking Member Davis. Today I want to discuss improving our unemployment insurance for the betterment.

Unemployment insurance is a critical benefit for American workers. During the pandemic, unemployment insurance was a lifeline for Pennsylvanians in getting fast emergency assistance.

I support increasing the funding for the State unemployment operations so that the workers can get more resources. They need help.

I specifically want to discuss the important work that merit-based staff do the U.S. The best way that we can fight and prevent unemployment insurance fraud is to hire well-trained merit-based staff.

We know that certain States during the pandemic hired untrained contractors in staff roles which only led directly to more fraud in errors in the system. It is interesting that the Musk administration is trying to do the same thing right now, inside certain federal agencies, replacing employees with their own outside contractors.

Right now, the last thing we need is someone unqualified scooping our constituents' private data, including our unemployment system.

Mr. Meyenburg, I would like to ask you a question. In your testimony, you highlighted the importance of merit-based staffing in the UI system as opposed to States who are outsourcing work through untrained contractors.

Mr. MEYENBURG. Yes. I believe that merit staff UI workers are key and ideal for helping prevent fraud because there is no, like, third-party system. It is, you know, State workers performing the work of the State and making sure that it stays within the State. It is not a third-party by any means.

Mr. EVANS. Can you speak more about experience under merit-based systems and the advantage it has in preventing fraud.

Mr. MEYENBURG. Yes. When you, say, are a trainer, training folks that are unfamiliar with the system, after years of experience, you understand the complexities within the system and how to get from A to B to C in a timelier fashion.

This allows you to conduct the training at a faster level but still maintain that high level of training that is required in order to do the position.

Mr. EVANS. Can you please explain the level of job training that State worker agencies, employees, go through to provide the highly qualified servicing of the UI system and how this training differs from non-merit staffing training?

Mr. MEYENBURG. I will say, during the pandemic, I received a minimal amount of training. It was enough to allow me to process claims.

Now, with regular merit-based staff, they receive, at a minimum, 6 to 8 weeks of training, so that way, they are sufficient when they hit the floor and talk with claimants on the phones.

Mr. EVANS. I want to, one, thank the chairman and thank the ranking member for the conduct leaders here.

Mr. LAHOOD. Thank you. Appreciate it, Mr. Evans.

Now, I will turn to Ms. Van Duyne who is a new member of our subcommittee. Welcome, Ms. Van Duyne, and you are recognized.

Ms. VAN DUYNE. Thank you very much, Mr. Chairman.

It is egregious and actually disheartening that in the wake of a global pandemic that disrupted the lives of millions—we all saw it—that forced thousands of small businesses to close their doors and robbed millions of Americans of their loved ones, bad actors and international criminal gangs that would seek to take advantage of good-faith efforts to help those negatively impacted by a once-in-a-lifetime tragedy.

The GAO estimates that pandemic unemployment fraud may be as much as $135 billion, with some estimates even higher.

And I think it is vital that Congress act so that prosecutors have the opportunity to track down and to hold these criminals accountable.

But this committee also has a responsibility to ensure proper oversight in the administration of the UI program as a whole.

Mr. Talcove, government officials, state employees, and contractors routinely participate in insider UI fraud, and states either ignore the problem, or they try to infer that embezzlement is not an issue with state employees.

This problem is often overlooked by government officials as in Delaware, for example, where the Public Integrity Commission refused to investigate a Delaware Department of Labor employee who was embezzling money directly from the state's Unemployment Trust Fund.

Can you please speak about your experience regarding insider UI fraud, and is it being taken seriously by government officials?

Mr. TALCOVE. Yeah. I would say, of the $250 billion that was stolen from unemployment insurance, I would say approximately 10 percent, or $25 billion, was insiders.

Ms. VAN DUYNE. Wow.

Mr. TALCOVE. And what the insiders were doing was, they were, in some cases, selling their access to some of these same criminal groups that you mentioned, from China, Russia, Nigeria, and Romania, they were selling their access to gangs, or—which I think is worse—is, they were stealing from the very people that they were trying to serve.

And you have to have oversight, and you have to have auditing in those programs. And it wasn't just in Delaware. I mean, I think it happened in 20-plus States.

The other point that I would make is, unfortunately, it is still happening today, and it is just not in the unemployment insurance program. It is in the SNAP program, it is in virtually all the programs across the country.

Now, last point, 99.9 percent of those workers, they are really good people. They show up every day and they do the right thing. It is a very small percent, but they give everybody a bad name.

Ms. VAN DUYNE. And I appreciate that. I am also with Aaron Bean on the Small Business Committee, and this is my fifth year on that committee. And we have talked to small businesses who during this time have seen, you know, benefits that they should have received, not delivered, because that was given out to fraudsters and criminals, and the complete lack, during the last administration, of holding these people accountable or providing oversight.

Ms. Hui, in your written testimony, you quoted a national study published in August of 2020, by the University of Chicago, entitled "U.S. Unemployment Insurance Replacement Rates During the Pandemic."

You say that the median percentage of salary replacement unemployment during the pandemic was 145 percent. It was more than 200 percent for workers in the bottom 20 percent of the U.S. income spectrum and more than 300 percent for workers in the bottom 10 percent.

This compares to the typical pre-CARES Act salary replacement rate of only 40 to 50 percent of lost income.

In plain English, we are paying a lot of money to stay home rather than to go to work, and the disaster effects of this policy are still being felt today.

And according to the U.S. Chamber of Commerce, workforce population remains below pre-pandemic levels, and we are missing 1.7 million Americans from the workforce, compared to February of 2020.

Can you please speak on the disastrous effects of paying people unemployment benefits that were double or triple their salary before the COVID–19 pandemic and why this must never happen again during any type of economic downtown in the future?

Ms. HUI. Certainly, you know, the American people are so generous in making sure that their fellow Americans get support during these times of emergencies, right? And so I think one of the things that we saw that was a major motivation for this type of fraud was the federal pandemic unemployment compensation plus-up.

So most states have a regular weekly benefit amount. In Missouri, the maximum benefit that you can get is $320 a week, and, again, that is based on what your income was and what your credits are into the trust fund from the employers that have paid in.

Now, when you then add $600 on top of that, you are definitely putting a huge multiplier on it, right? And during the 2008/2009 crisis, that plus-up actually was $25.

So you would have your weekly benefit at the state level and then a $25 plus-up. But in 2020 we raised it to $600.

And we needed a flat number. There were a lot of states that had legacy systems, and they could replace that $25 number with another flat number. But they couldn't prorate it.

So that was one thing, but the choice of $600 absolutely was, like, the spark that really generated the attention of fraudsters to get in. You just had to have some successful hits to—in each state, you could have multiple states that you file in, just a few weeks, and you can get, you know, quite a few thousands of dollars. So, again——

Ms. VAN DUYNE. My time is expired. I appreciate your answer.

Ms. HUI. No problem.

Ms. VAN DUYNE. I need to yield back, but thank you all very much for your testimony.

Mr. LAHOOD. Thank you, Ms. Van Duyne.

I now recognize Mr. Gomez of California.

Mr. GOMEZ. Thank you, Mr. Chairman. Congratulations on being the new chairman of this committee.

Let me be clear. Democrats and Republicans both say that there is no place for fraud. Democrats, it is because it undermines people's faith that government is actually doing the job that they are supposed to do. And I think that is a big deal.

And also, I appreciate the gentleman from Florida mentioning that there was fraud in a Republican-run State, and it is not just the Democratic states have the problem.

And also, one of the biggest ways that fraud happens is through weak security measures that leave people's personal information vulnerable.

Mr. Meyenburg, what kind of training do State worker agency employees receive to ensure they are protecting personal information?

Mr. MEYENBURG. Yes. It is at least 6 to 8 weeks' worth of training with a heavy emphasis on protecting identity information and all personally identifiable information.

Mr. GOMEZ. Social Security numbers, birthdays——

Mr. MEYENBURG. Yes.

Mr. GOMEZ [continuing]. Accounts, anything that can say this person is associated with this—or this information is associated with that individual?

Mr. MEYENBURG. Absolutely.

Mr. GOMEZ. Yeah. And that is—you know, I want a bureaucrat to be just a pain in the ass. I want them to, like, Oh, u don't have the proper information? You know, reject it.

Oh, you want to access this information? You need this form. You need this clearance. You need this kind of training. You don't? Too bad. You can't have it.

But something that is going on now at the Federal level is when it comes to Secretary Bessent and President Trump. I don't think Secretary or President—or President Trump made sure Elon Musk got that kind of training, or any training for that matter before all of our personal data was turned over to him.

I want my friends on the other side of the aisle to see this as a big, big issue, because if there is nothing there being a check, this is becoming the largest fraud and scam of our government when it comes to personal information in our history.

This is at a time when people are struggling with skyrocketing rent, when grocery prices are through the roof, and when childcare costs are out of control.

What are Donald Trump and Secretary Bessent doing? They gave Elon Musk, an unelected, unconfirmed, untrained, special, quote/unquote, special government employee, and the rest of his tech bros, access to every Americans' sensitive and personal financial information.

They have access to our bank accounts, to your bank accounts. If you filed taxes electronically, you paid your taxes, you received payments, they have access to all your accounts. You know, we need to do something to address that.

And it doesn't matter where this—like, they have access to everybody's information, if you live in Indiana, Illinois, Ohio, California, and that is risking a massive personal data leak that can lead to identity theft on an unprecedented scale.

I had my identity stolen so I know how painful it is to have to prove who you are and to get your money back and to make sure that you are not going into debt.

Improper disclosure of taxpayer information is considered a felony under section 6103, punishable up to 5 years in prison, as well as $5,000 fine, and that is just for one instance of improper tax disclosure.

What is the punishment for every single American? That is the scale of this potential fraud and breach of information.

Is Secretary Bessent's careless disregard for most sensitive personal information worthy of Articles of Impeachment? I don't know yet because they refuse to hand over any information of what occurred in the last several days.

But this is a serious, unprecedented situation. Secretary Bessent needs to come before this committee and answer questions on violating the people's trust but also when it comes to their personal information.

We can't stand for it. Fraud is fraud, no matter who does it. Is it a public employee? Is it a criminal enterprise? Or even if it is the Secretary of the Treasury himself, we need to stop it, and we need the answers now.

With that, I yield back.

Mr. LAHOOD. Thank you, Mr. Gomez.

I now recognize the gentleman from northwest Iowa, Mr. Feenstra.

Mr. FEENSTRA. Thank you, Chairman, and I want to thank the witnesses for being here. I enjoyed reading your testimony and also listening to it.

I just want to remind everybody that all bureaucrats are not elected. This is just common sense.

We are here to create solutions. We are here to understand the problems and then create solutions, and, Mr. Ficke, that is what I want to talk about.

I was impressed by reading your testimony. I know you are not a law enforcement officer, but you have 30 years of experience in the financial services industry. And generally unemployment insurance is prosecuted using federal banking laws, including mail fraud, wire fraud, conspiracy, aggravated identity—identity theft, money laundering.

So considering your time in financial services and working with the State of Ohio, are these banking offenses the right charges for individuals with unemployment insurance fraud? What is your thoughts there?

Mr. FICKE. Well, first of all, thank you for your question. You know, in my previous testimony, I have actually stated a few times that I think it is very important to look at collaboration of data and information between—between what is available in the private sector and what is available in the benefits applications and submissions and those types of things that are going with it.

I think the prosecution of those criminals is extremely important. We have talked about the number of cases. I think it is really important to focus on the magnitude of individual cases and looking at the impact that those can have on the overall collection and recovery of those funds.

Mr. FEENSTRA. Do you think we should figure out better ways, though? Instead of using the, you know, the financial services industry, is there a better way to prosecute these claims under something different than banking regulations?

Mr. FICKE. Well, I think in my experience, especially with the Attorney General's offices and the collaboration that happened in Ohio, a lot of it was driven and supported by the amount of information-sharing that happened between.

And as Mr. Talcove has pointed out a few times, this is not limited to unemployment insurance. This goes across SNAP and multiple other programs.

I think it is important, when we looked at the guidelines from a private supporter of our State, when we looked at the guidelines, what we were able to do, it was our role, as the agency's role to actually identify——

Mr. FEENSTRA. Yep.

Mr. FICKE [continuing]. That a case had to be prosecuted but then to turn that over to the appropriate organizations at that time.

Mr. FEENSTRA. So you are in the State of Ohio. I was in the State of Iowa. I was a state senator, head chair of Ways and Means at that point. And really the states are the ones that handle all the unemployment insurance issues, and here is the situation.

Obviously, through COVID we gave a lot of dollars and stuff like that. How can us, as the states, what can the federal government do to help the states with fraud issues?

And then I think moving forward and saying, all right, what happens if we have a situation like this again? How can we be proactive in trying to find solutions to mitigate some of these issues?

Mr. FICKE. Well, thank you for the question. I think the first thing that comes to mind for me is sustainability. There have been very strong measures put in place during the crisis. The support to actually encourage and enable the states to actually keep those in place, I think, are going to be a really important part in the overall success.

Another one is—and I say this a few times—is collaboration, not only from a data perspective but best practices that have taken place in multiple private sector organizations.

Mr. FEENSTRA. And using each state. So Ohio might have a great way of doing it. I mean, we should be collaborative across State lines, figuring out what are the best practices.

Mr. FICKE. Yeah. A very good example of that is the reality that one false account in a financial institution could be used across multiple states——

Mr. FEENSTRA. Yeah.

Mr. FICKE [continuing]. And today the individual state has a harder time recognizing some of those trends.

Mr. FEENSTRA. Mr. Talcove, can you talk about that a little bit, making sure that, moving forward, our state systems are prepared for these unemployment spikes, and, you know, this stealing of billions of dollars, and what the States can do collaboratively with the federal government?

Mr. TALCOVE. Yeah. So I mean, I want to make the first point. I was out in California this week, L.A., and the same criminal groups——

Mr. FEENSTRA. I heard that, yes.

Mr. TALCOVE [continuing]. That stole from the unemployment insurance——

Mr. FEENSTRA. Are doing the same thing with fire.

Mr. TALCOVE [continuing]. Are now stealing from the disaster unemployment——

Mr. FEENSTRA. So that should be a clue to us, right?

Mr. TALCOVE. Right. We haven't fixed it——

Mr. FEENSTRA. Yes.

Mr. TALCOVE [continuing]. Right? And it really starts with those three things that I talked about, right? It is the front-end identity verification——

Mr. FEENSTRA. Yep.

Mr. TALCOVE [continuing]. It is no self-reporting, and it is managing that back-end population. And it is frustrating because there are people in California who need those benefits that are going to wake up one day——

Mr. FEENSTRA. And not have them, yep.

Mr. TALCOVE [continuing]. And they are going to see that someone put a loan against their house because they got an SBA loan for a half a million dollars.

Mr. FEENSTRA. Great point. My time is up, but thank you. We are in this together. As states and as the federal government, we are in this together to try to figure out solutions.

Thank you, Chairman. I yield back.

Mr. LAHOOD. Thank you, Mr. Feenstra.

I recognize Mr. Horsford of Nevada.

Mr. HORSFORD. Thank you, Chairman LaHood and to Ranking Member Davis for holding this hearing and for the courtesy of allowing Members to wave on.

I would also like to just talk about the importance, as we are, about rooting out waste, fraud, and abuse, and protecting American taxpayers, but also, we really need to provide some answers to our constituents based on the immediate issue that they are facing.

The largest illegal data breach is happening right now in U.S. history, at this administration's direction, and we still don't know who is in charge or what they are up to, where this information is being used or how widespread it is.

So, I really wish that this was the focus of today's hearing since this is what the majority of my constituents are calling me about today.

I would also like to talk about what we are doing to prevent Elon Musk, and the hackers who are involved with potentially slowing down people's tax refunds, their Federal payments, and their hard-earned benefits. That is what people want to know.

Less than a year ago, Chairman Smith introduced legislation meant to increase the maximum penalty for the unauthorized disclosure of returns and return information, and I agree with Chairman Smith when he stated that Congress must not tolerate the theft and leak of taxpayer information.

So why aren't we doing something about it, since we have the largest illegal data breach in U.S. history taking place right now under this administration's watch?

Now, turning back to the issue of this hearing, I actually introduced, back in August of 2022, the GUARD Act, the Guaranteeing Unemployment Assistance and Reducing Deception Act.

My bill enables aggressive action to recover pandemic unemployment benefits that were paid to criminal cartels by supporting prosecution of ring leaders and helping victims of fraud.

The bill would also seek to provide workers who were victims of identity theft with help to quickly resolve any remaining issues.

My district has no shortage of identity theft cases. That is why I am concerned with this illegal data breach that is happening right now.

But between 2020 and 2023, we saw a 63 percent increase in the Metro Las Vegas area alone of identity theft cases. I know this issue because my constituents know this issue.

So, I was pleased to see that we would be addressing a recommendation by the Department of Labor Inspector General to extend the statute of limitations for pandemic unemployment insurance fraud.

Unfortunately, last week, President Trump fired that IG, the one who made the recommendation that we are all discussing in this hearing, the one who makes this hearing relevant.

So, now the IG is gone, the majority is holding this hearing anyway with two contractors, but not one single public employee who investigates and prosecutes fraud.

My constituents want to know what we are doing about these issues, Mr. Chairman. So I suggest that as a committee, we focus on those priorities and to make sure that they are being addressed.

If I could go to the witness, the minority witness, to understand, would providing measures like the Guaranteeing Unemployment Assistance and Reducing Deception Act, the GUARD Act, help address protecting the victims of fraud from identity theft?

Mr. MEYENBURG. I don't know all of the details that go in with the GUARD Act, but I do think that there is—there is always more we can do to protect not only ourselves, our loved ones, our neighbors, our families, all of that. So I do believe there is more that we can do, absolutely.

Mr. HORSFORD. Do you agree that having an Inspector General who oversees protecting taxpayers is an important function?

Mr. MEYENBURG. Absolutely.

Mr. HORSFORD. And that person being fired is preventing that protection being in place at this time?

Mr. MEYENBURG. Absolutely.

Mr. HORSFORD. So, Mr. Chairman, why aren't we addressing that today?

I yield back.

Mr. LAHOOD. Thank you, Mr. Horsford, for your questions.

That concludes our questions from committee members here today. Let me just, again, acknowledge your statements today, your testimony today, answering our questions.

We appreciate your expertise, your experiences, your suggestions, very, very helpful here today, and to lay the context for what we need to do between now and March 27th, which is to extend the statute of limitations on this, for taxpayers and for this particular program.

And so I look forward to working collaboratively, look forward to working in a bipartisan way with my colleagues to get that done on behalf of the taxpayers of the United States.

So with that, I will advise members that they have two weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal record.

With that, the committee stands adjourned. Thank you.

[Whereupon, at 3:48 p.m., the subcommittee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

House Committee on Ways and Means

Work and Welfare Subcommittee

Hearing Entitled: Time's Running Out: Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers

Representative Jimmy Gomez

Questions for the Record

February 6, 2025

For Mr. Haywood Talcove

Mr. Talcove*, according to public records, your Accruit tool provides more than 11,000 ICE agents access to analytics that "automate" decisions about the deportation process. ICE records suggest that LexisNexis conducts large-scale surveillance for civil immigration arrests.* ***Can you please elaborate on this relationship, and explain further on how you ensure those same communities—like Latinos—access benefits like UI?***

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Thank you for your questions.

Accurint is an investigative tool that helps law enforcement pursue actionable leads in criminal investigations. In the case of ICE, it is used to identify individuals who have committed serious crimes such as felonies including human trafficking, drug smuggling and violent crimes which pose a risk to urban, rural, and agricultural communities across the country and particularly to vulnerable populations. Accurint is not a tool used to "automate decisions about the deportation process" nor is it a surveillance tool.

Regarding access to unemployment insurance, LexisNexis Risk Solutions is committed to ensuring that all communities have full access to critical government services. Our data and analytics solutions help agencies across the country to protect the rights of citizens by verifying identities and preventing fraud committed by domestic and foreign crime rings. Doing so ensures that benefits—such as unemployment insurance—reach the people who need them. Identity theft is a pernicious crime that ensnares vulnerable populations who often have the fewest resources to undo the damage when their entitlement benefit is stolen.

Haywood Talcove

Chief Executive Officer

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PUBLIC SUBMISSIONS FOR THE RECORD

Arnold Ventures Statement for the Record
Ways and Means Oversight Subcommittee Hearing:
"IRS Return on Investment and the Need for Modernization"
February 11, 2025

The Honorable David Schweikert
Chairman, Oversight Subcommittee
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Terri Sewell
Ranking Member, Oversight Subcommittee
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee:

Arnold Ventures appreciates the opportunity to submit this statement for the record in relation to the Subcommittee's February 11, 2025 hearing, "IRS Return on Investment and the Need for Modernization."

Arnold Ventures is a philanthropy dedicated to investing in evidence-based policy solutions that maximize opportunity and minimize injustice. Our work within the public finance sector aims to advance tax and budget policies that promote both fiscal sustainability for governments—especially at the federal level—and economic opportunity, mobility, and security for Americans.

We support research and policy development to help understand and address dysfunctional tax administration. One symptom of this dysfunction is the nation's persistently large tax gap, which is as high as $428 billion annually according to the Internal Revenue Service's estimation.[i]

To help the IRS address this longstanding issue and ensure that individuals and businesses receive the support they need from the agency to determine their legal tax obligations, Congress initiated tens of billions in new funding for the agency in the 2022 Inflation Reduction Act. These funds were intended to kickstart a once-in-a-generation modernization effort. Progress in deploying those resources, however, has been disappointingly slow. A September 30, 2024 report from the Treasury Inspector General for Tax Administration indicates that the IRS has spent just $6.9 billion of the $57.8 billion available to it, with $2 billion of that used to backfill ordinary operations rather than going to transformational investments.[ii]

Congress should work to ensure the IRS is focused on leveraging this modernization funding into high-impact projects which stand to significantly improve the tax administration environment. For example, one of the IRS's most pressing challenges is its antiquated IT infrastructure. Many of its core systems rely on decades-old technology, making them increasingly difficult to maintain while contributing to bureaucratic delays. Upgrading to modern architecture could speed processing and allow the agency to better focus its audit activity.

Improving IRS customer service must also be a key focus of modernization.[iii] During recent filing seasons, taxpayers have faced significant hurdles in obtaining timely assistance, whether through telephone support, correspondence processing, or in-person interactions. Improved digital tools, expanded online self-service options, and better-trained personnel can alleviate these issues.

Modernization efforts must be paired with greater transparency and accountability; the IRS should not be given a blank check to spend tens of billions without results. Congress should ensure the agency sets clear, measurable goals and demonstrates real progress in updating its systems. Sufficient oversight—including regular hearings where the agency provides updates against their performance benchmarks—can help to ensure taxpayer dollars are used responsibly and efficiently.

Oversight from this Subcommittee is crucial to ensuring the IRS accelerates the deployment of IRA dollars and targets them to areas of highest impact. The agency must modernize its core functions to improve taxpayer services, increase efficiency, and uphold the integrity of our tax administration system through smarter, more efficient audits. [iv] This entails upgrading critical infrastructure, such as the Individual Master File and Business Master File. These necessary improvements may not generate flashy headlines, but they are essential to ensuring a fair and functional tax system.

At the end of the day, the IRS exists to serve the American people, not the other way around. By ensuring that IRS reform prioritizes core system upgrades, taxpayer service, and operational efficiency, Congress can build a tax administration system that is fairer, more responsive, and truly accountable to the American people.[v]

We at Arnold Ventures applaud the Subcommittee's efforts to hold the agency accountable for delivering meaningful improvements to taxpayers and look forward to partnering with the Subcommittee to ensure the agency stewards taxpayer dollars with the highest level of integrity.

Sincerely,

Andrew Moylan
Vice President of Public Finance
Arnold Ventures

Anna Tyger
Public Finance Manager
Arnold Ventures

[i] "The tax gap," Internal Revenue Service, last updated December 30, 2024.
[ii] "Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024," Treasury Inspector General for Tax Administration, Report Number 2024-IE-R020, September 30, 2024.
[iii] For recommendations around improving customer service, see Bryan Hickman and Joe Bishop-Henchman, "Call to Action: Crafting a New Taxpayer Service Experience," Taxpayers For IRS Transformation, May 2024; and for more information see "Tax Chat! With the Center for Taxpayer Rights on Voluntary Tax Compliance," YouTube, uploaded by the Center for Taxpayer Rights, June 25, 2023.
[iv] For recommendations around modernizing IRS systems, see Bryan Hickman and Pete Sepp, "From Lag to Leap: A Roadmap for Successful IRS Modernization," Taxpayers For IRS Transformation, June 5, 2024; and for more information see "Tax Chat! Transforming Tax Administration – IRS IT Challenges," YouTube, uploaded by the Center for Taxpayer Rights, May 3, 2023.
[v] For recommendations around strengthening taxpayer rights, see Bryan Hickman and Pete Sepp, "Shaping a Future of Fairness: Proposals to Safeguard and Strengthen Taxpayer Rights," Taxpayers for IRS Transformation, June 2024; and for more information see "Tax Chat!: Transforming Tax Administration – IRS Independent Office of Appeals & the US Tax Court," YouTube, uploaded by the Center for Taxpayer Rights, November 26, 2023.

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Work and Welfare
Time's Running Out:
Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers
Thursday, February 06, 2025 - 2:00 pm

By Michael G. Bindner

The Center for Fiscal Equity

Chairman LaHood and Ranking Member Davis, thank you for hitting the ground running as the new Congress convenes. These comments repeat our proposal for enacting long-term unemployment insurance as part of a major overhaul in social services. We have submitted these to the Budget Committee, the Senate Finance Committee, this subcommittee and the Social Security Subcommittee last June.

The general approach to reform social services is to provide a form of guaranteed income, but not through a general subsidy for all households. We do not propose free money for all households - which is the gist of basic income proposals. Our approach addresses individual needs, but uses similar tools.

The pandemic era unemployment insurance payments were essentially a basic income grant, along with stimulus payments for each household. Both of these put money in the system when needed to prevent a general economic depression for the second time since the turn of the century. These payments allowed workers to be more selective in accepting employment, which in the recent case gave them bargaining power to seek higher wages.

While there are many examples of people abusing pandemic era policies, even fraudulently obtained benefits helped move the economy out of the disaster zone. Only benefits to those with higher incomes, which enabled further speculation, had a bad effect. Too many people had enough to waste their money buying cryptocurrencies and investing in exchange traded funds which hide such investments, as well as mortgage backed securities funding questionable properties (especially those owned by cabinet members Ross and Mnuchin - which were also backstopped by the Federal Reserve).

The title of this hearing is unfortunate, as those unemployment benefits that were questionable did not come at the expense of other beneficiaries or employers. They were debt funded. The creation of debt led to the expansion of mutual fund instruments. This expansion is responsible for the continuing boom in the speculative economy. The place to moderate this speculation is not by going after the poor, but in increasing tax rates on capital gains to wealthier taxpayers.

The last administration attempted to do so, but was stopped by two Senators who later became Independents who caucused with the Majority and then declined to seek a second term.

Recent inflationary pressure comes from leaving that part of the 2018 tax cuts in place. These cuts are due to expire at the end of this year. We urge the committee to let them. Instead, focus on increasing the income of low-income families. Doing so will take direct action by this subcommittee. Letting the speculative economy experience a mild contraction takes no effort at all - although some reforms, such as the repeal of exemptions in favor of higher child tax credits should be preserved (or expanded - as suggested below).

Until Congress increases the minimum wage, and as importantly, abandons percentage based cost of living adjustments for federal direct and contract employees in favor of a specific dollar amount, the country will face deepening poverty for some and high inflation for others. Prices chase the wage given to the 90th percentile - which is where the median dollar of income is paid.

The reforms below will prevent the boom-bust cycle which we seem to be trapped in of late. They will also provide resilience against the next pandemic.

1. An increase in the minimum wage to at least $12 per hour (if not more to account for pandemic inflation), with a $13 wage for a shorter work week. This distributes the burden of higher wages for less work with employees and employers.
2. Increase the Child Tax Credit to levels passed by the House, with increases to at least twice that in fairly short order.
3. Replace the current menu of social programs with long term unemployment insurance at below minimum wage levels, which would be supplemented with additional funding for participation in basic education (especially for ex-offenders), employment training, psychiatric or addiction rehabilitation programs. Old Age, Survivors and Disability Insurance would start with this amount as a minimum, with higher benefit levels based on employment history. Dependent payments would be made through the child tax credit once it has been increased to current survivor benefit levels.
4. Long term unemployment insurance would be awarded on a no fault basis, ending the need for eligibility investigations beyond verification of identity and for punitive disciplinary systems by employers designed to avoid paying benefits. This payment, which would be indexed for inflation, would be $10 per hour for a 28 hour week, would be tax free and funded by a national goods and services tax. States could enact higher benefit levels funded by a local GST.
5. Most, if not all, anti-poverty programs would be discontinued, although programs to increase rental housing supplies would be expanded.

Please see the attachments for more information on the conforming changes to tax policy.

Taken together, these reforms will remove the punitive features from anti-poverty programs, especially those which require an excess of red tape to participate - especially the earned income tax credit and supplemental security income.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment - Tax Reforms

We offer two reform proposals in our comprehensive tax reform plan that will provide for a more equal distribution of Social Security benefits for the future, although if these proposals would make some current beneficiaries better off, they should be applied to them retroactively.

The problems with the current system are that the poor do not get enough and the rich get too much, although in the end, due to bend points, the rich only get what they put in, which drives the demand for personal accounts.

One oft-cited reform is means-testing. This will only make the call for personal accounts louder. The alternative to means testing is to lower the ceiling of the employee contribution. This seems counter-intuitive - but this is only the case if the employer and employee matches are equal. They need not be. Employer contributions need not be capped, nor should they be tied to income earned. Rather, they should be credited equally. Here are the details:

Individual payroll taxes. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher income individuals. The logic of the $20,000 floor reflects full time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

Employer payroll taxes. Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

If these options are adopted, the impetus to establish personal accounts largely goes away. Ironically, a more equal distribution on the side of accumulation would make personal accounts workable. Initially, the employer match would be replaced with a broad based VAT, as above. In time, as employee-ownership of the workplace evolves (and it must), funding with a goods and services tax would be replaced with funding with an employer-paid subtraction value added tax. Such a change would nearly be price neutral, although exporters would pay more while importers pay less.

Personal accounts for employee-owners could not be enacted now - as there are simply not enough such firms for this reform to make a difference. That this sector should be expanded is the difference between a widening income divide in the American economy and a more cooperative and democratic economic future.

A different form of tax reform is necessary to do this - one that involves a tax cut. Currently, when creating employee stock ownership programs, the founder sells his stock to an ESOP Trust fund and gets a tax premium due to the fact that capital gains taxes are not levied on such a sale. Giving shareholders in public companies the same benefit - in other words - a tax cut, will provide the incentives needed to jump start the employee-owned economy.

A further tax reform will facilitate this transition: fully end the "Death Tax" and capital gains taxes (both long and short term) and replace them with an asset value added tax, which is described in the attachment.

Increasing Incomes

The current "school solution" to increase savings to supplement Social Security, as found in Social Security 2100, is obscene. Those who can save, already do. Most cannot do so and giving them tax incentives, even with automatic contributions, highlights the inadequacy of the wages in the vast majority of households.

There are two reasons for this. The first is that the minimum wage has not increased in decades and the tipped wage is not a wage at all, especially when low tipping is not offset by higher wages, as required by law but never enforced (or paid). To restore the value of the minimum wage to the level it would have been had it been indexed to inflation would require an increase (and I mean an immediate increase) to $10 per hour. This was the counter-offer the Senate Minority made to counter a $15 wage increase until the Senate Parliamentarian ruled that such a reform was not germane in Reconciliation. The Majority Leaders should have taken the deal.

A $12 wage would restore the balance to 1965 levels, which is when the Kennedy-Johnson tax cuts took effect and compensation and productivity were decoupled. A $13 per hour wage with a decrease in full-time hours to 32 per week would have the same impact for workers.

A $15 wage - which is an old number - was meant to be a family wage - and would be $18 to have the desired effect. The other option, one proposed in the President's Budget, is to increase the Child Tax Credit to pandemic recovery levels (including making it fully refundable), although I would start the phase out at the $85,000 income level, with no credit for households earning over $150,000. The amount of the credit should also be increased with time to $1,000 per month, per child and then indexed for inflation.

The second reason wages are inadequate is the way inflation adjustments are made - which is as an equal percentage increase to all employees or beneficiaries rather than an equal dollar increase. This was an innocent mistake until tax rates were cut on the CEO class. When the government stopped taxing away increased compensation for business owners and executives who cut labor costs, a minor math mistake turned into class warfare from above. It is time to fix this.

Adjusting the minimum wage does not affect the median dollar in the economy, which is earned at the ninetieth percentile of households. This has been the case for decades, and it is why anyone below that level has LOST VALUE to inflation. The federal government plays an outsized role in how salaries are determined through percentage based cost of living adjustments to government workers, beneficiaries, government contractors. The government can change this with the stroke of a pen.

From here on in, adjust for cost of living on a per dollar an hour rather than on a percentage basis (or dollars per month or week for federal beneficiaries). Calculate the dollar amount based on inflation at the median income level. No one gets more dollars an hour raise, no one gets less dollars per hour in increases. Increase the minimum wage as above and consider decreasing high end salaries paid to government employees and contractors. Even without decreases, simply equalizing raises will soon reduce inequality. Why is this necessary?

Let me emphasize: prices chaise the median dollar. The median dollar of income is actually at the 90th percentile, rather than the 77th percentile (which is about where the median is). This strategy will reduce inflation in both the long and short terms as prices adjust to decreases in higher salaried income.

Asset VAT - The President's Fiscal Year 2023 Budget, June 7, 2022

There are two debates in tax policy: how we tax salaries and how we tax assets (returns, gains and inheritances). Shoving too much into the Personal Income Tax mainly benefits the wealthy because it subsidizes losses by allowing investors to not pay tax on higher salaries with malice aforethought.

Asset Value-Added Tax (A-VAT) is a replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed.

As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. This change would be counted as a tax cut, giving investors in public stock who make such sales the same tax benefit as those who sell private stock.

This tax will end Tax Gap issues owed by high income individuals. The base 20% capital gains tax has been in place for decades. The current 23.8% rate includes the ACA-SM surtax), while the Biden proposal accepted by Senator Sinema is 28.8%. Our proposed Subtraction VAT would eliminate the 3.8% surtax. This would leave a 25% rate in place.

Settling on a bipartisan 22.5% rate (give or take 0.5%) should be bipartisan and carried over from the capital gains tax to the asset VAT.A single rate also stops gaming forms of ownership. Lower rates are not as regressive as they seem. Only the wealthy have capital gains in any significant amount. The de facto rate for everyone else is zero.

With tax subsidies for families shifted to an employer-based subtraction VAT, and creation of an asset VAT, taxes on salaries could be filed by employers without most employees having to file an individual return. It is time to TAX TRANSACTIONS, NOT PEOPLE!

The tax rate on capital gains is seen as unfair because it is lower than the rate for labor. This is technically true, however it is only the richest taxpayers who face a marginal rate problem. For most households, the marginal rate for wages is less than that for capital gains. Higher income workers are, as the saying goes, crying all the way to the bank.

In late 2017, tax rates for corporations and pass-through income were reduced, generally, to capital gains and capital income levels. This is only fair and may or may not be just. The field of battle has narrowed between the parties. The current marginal and capital rates are seeking a center point. It is almost as if the recent tax law was based on negotiations, even as arguments flared publicly. Of course, that would never happen in Washington. Never, ever.

Compromise on rates makes compromise on form possible. If the Affordable Care Act non-wage tax provisions are repealed, a rate of 26% is a good stopping point for pass-through, corporate, capital gains and capital income.

A single rate also makes conversion from self-reporting to automatic collection through an asset value added tax levied at point of sale or distribution possible. This would be both just and fair, although absolute fairness is absolute unfairness to tax lawyers because there would be little room to argue about what is due and when.

Ending the machinery of self-reporting also puts an end to the Quixotic campaign to enact a wealth tax. To replace revenue loss due to the ending of the personal income tax (for all but the wealthiest workers and celebrities), enact a Goods and Services Tax. A GST is inescapable. Those escapees who are of most concern are not waiters or those who receive refundable tax subsidies. It is those who use tax loopholes and borrowing against their paper wealth to avoid paying taxes.

For example, if an unnamed billionaire or billionaires borrow against their wealth to go into space, creating such assets would be taxable under a GST or an asset VAT. When the Masters of the Universe on Wall Street borrow against their assets to avoid taxation, having to pay a consumption tax on their spending ends the tax advantage of gaming the system.

This also applies to inheritors. No "Death Tax" is necessary beyond marking the sale of inherited assets to market value (with sales to qualified ESOPs tax free). Those who inherit large cash fortunes will pay the GST when they spend the money or Asset VAT when they invest it. No special estate tax is required and no life insurance policy or retirement account inheritance rules will be of any use in tax avoidance.

Tax avoidance is a myth sold by insurance and investment brokers. In reality, explicit and implicit value added taxes are already in force. Individuals and firms that collect retail sales taxes receive a rebate for taxes paid in their federal income taxes. This is an intergovernmental VAT. Tax withheld by employers for the income and payroll taxes of their labor force is an implicit VAT. A goods and services tax simply makes these taxes visible.

Should the tax reform proposed here pass, there is no need for an IRS to exist, save to do data matching integrity. States and the Customs Service would collect credit invoice taxes, states would collect subtraction VAT, the SEC would collect the asset VAT and the Bureau of the Public Debt would collect income taxes or sell tax-prepayment bonds.

Contact Sheet

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Committee on Ways and Means

Subcommittee on Work and Welfare

Hearing on Time's Running Out: Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers

Thursday, February 06, 2025 - 2:00 pm

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

Written Comments of Cami Feek

Commissioner

Washington State Employment Security Department

U.S. House of Representatives Ways and Means Subcommittee on Work and Welfare

February 19, 2025

Chairman LaHood, Ranking Member Davis, and distinguished committee members, thank you for the opportunity to provide written comments as part of the record for the February 6, 2025, hearing "Time's Running Out: Prosecuting Fraudsters for Stealing Billions in Unemployment Benefits from American Workers."

My name is Cami Feek, and I am the Commissioner for the Washington State Employment Security Department (ESD), a position I have held since February 2021. ESD is responsible for administering the state's Unemployment Insurance (UI) program and administered the federal unemployment programs during the COVID-19 pandemic. I have served at ESD since 2017 and was the Deputy Commissioner during the pandemic. I am also currently the chair-elect for the National Association of State Workforce Agencies (NASWA) board.

In this testimony, I provide an overview of our state's UI program and response to the pandemic, including the unprecedented fraud attack on the system, as well as provide lessons learned and recommendations to Congress to better serve eligible UI claimants and prevent fraud.

Washington State's UI Program

In order to qualify for UI benefits in Washington, individuals must work 680 hours in covered employment during their base year (first 4 of the last 5 calendar quarters completed at the time they apply for benefits). Claimants need to have lost their job through no fault of their own, and remain able and available for suitable work, as well as actively seek work, during each week they claim benefits. Normally, claimants can collect benefits for up to 26 weeks during their benefit year (the 52 weeks that start when claimants first apply for benefits). Washington offers one of the most generous UI benefits in the nation, with a current minimum weekly benefit amount of $342 and maximum weekly benefit amount of $1,079. In 2020, when the pandemic hit, Washington had the second-highest UI benefits in the nation with a minimum weekly benefit amount of $188 and a maximum weekly benefit amount of $790.

Unemployment benefits are financed by employer contributions to the state UI Trust Fund. Washington's state unemployment tax has two main components. The experience rated tax is based on an average of an employer's claim history over the past four fiscal years. The four-year rolling average cushions the effect of one bad year for an employer. A social cost tax is paid by nearly all employers to cover shared costs of the insurance system that cannot be attributed to a specific employer (e.g., benefits paid to workers whose company went out of business). When benefit payouts exceed taxes collected, the social cost tax increases somewhat to slow the decline of the UI trust fund, protecting employers from sudden tax increases. Washington has one of the strongest UI Trust Funds in the nation, allowing our state to not only maintain solvency without needing a federal loan during the pandemic, but to do so while enacting legislation that provided relief to employers and prevented them from paying roughly $2.5 billion in state UI taxes.

Like other states, Washington relies on a federal UI Administration grant financed by employers' Federal Unemployment Tax Act (FUTA) tax to fund UI program administration. This funding appropriated by Congress and provided by the US Department of Labor (USDOL) to states is apportioned based on a severely outdated Resource Justification Model (RJM) that states provide USDOL. As a result, Washington consistently receives less than 75% of the administrative funding it needs annually to operate the UI program.

Washington State's Pandemic Response

Washington State had the first confirmed case of COVID-19 in the United States on January 21, 2020. The state acted quickly and proactively to protect the health and safety of Washingtonians from the rapidly spreading virus, to include swiftly promulgating state rules to more flexibly provide UI benefits to workers. After the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress in March 2020, Washington was one of the first states to provide pandemic unemployment benefits to individuals beginning April 18, 2020, which was 3 weeks after the bill was signed into law.

Serving UI claimants during the pandemic was an immense challenge. In February 2020, ESD received 20,338 initial claims. In March that figure jumped to 306,544 and in April we received another 457,127 initial claims. We received over 100,000 initial claims monthly through July 2020 and managed historically high claim volumes throughout the pandemic. Approximately 1.2 million unemployed workers in Washington (1 in 3) received $21.7 billion in benefits from March 2020 to September 2021. The benefits ESD paid over 18 months was roughly the same as the previous 18 years combined.

As claim levels rose at an unprecedented rate, as one of the first states to launch pandemic unemployment programs and with a generous weekly benefit amount, Washington was one of the first states hit with a sophisticated fraud attack. Prior to the pandemic, UI fraud primarily involved individuals providing false or misleading information on a claim to obtain benefits they are not entitled to. In contrast, this attack involved identity theft with organized criminals using other people's personal information to fraudulently file for benefits through claims that appeared legitimate. While Washington was one of the first states hit with such an organized imposter fraud attack, ultimately most or all states were targeted and many suffered far greater losses including states that launched federal pandemic programs later and provided lower benefit amounts.

Washington quickly and effectively responded to the attack, ultimately mitigating losses and leading the nation in the recovery of fraudulently obtained benefits. Washington prevented greater losses by implementing efficient processes for employers and individuals to report imposter fraud claims, partnering with outside experts to analyze fraudulent claims and develop evidence-based filters to flag claims appropriate for identity verification before determining eligibility for receiving benefits payments, and communicating with financial institutions about the nationwide attack. Aiding with recovery, Washington quickly engaged with its issuing bank and receiving banks to secure return of fraudulent funds, using uniform financial law processes and developing efficient processes for reaching agreements on limited indemnification when needed to secure recoveries. ESD also assisted the state attorney general to obtain court orders for recoveries when other efforts were unsuccessful.

Overall, Washington has recovered a total of roughly $432.6 million out of $647 million in stolen benefits. That leaves approximately $214.4 million out of $21.7 billion in benefits paid by Washington State lost to fraud. These efforts include the recovery of more than $52 million in benefits by our state attorney general through what I believe is the first and only exercise of state asset forfeiture powers and pursuit of consumer protection investigations against FinTech companies and their bank partners to recover stolen taxpayer dollars associated with pandemic unemployment benefits. In the view of the state attorneys leading this litigation, the lack of regulatory attention on FinTech companies was a significant contributor to UI fraud during the pandemic, as identity thieves exploited the FinTech companies' lack of knowledge or disregard of the Bank Secrecy Act to open and drain fraudulent accounts on financial application platforms.

Since the initial criminal attack on our UI system in the spring of 2020, ESD has effectively prevented fraud loss. In fact, since July 2020 only .1% of benefits paid have been lost to fraud. That critical fraud prevention work, however, is not federally funded leaving states vulnerable to further fraud loss without additional resources from Congress.

Lessons Learned and Recommendations for Congress

Unemployment Insurance is a critical program that helps workers maintain financial stability when experiencing job loss, employers maintain stable demand during economic downturns, and communities reduce the severity of economic recessions through sustained household spending. According to the US Census Bureau, 4.7 million more people, including 1.4 million children, would have been in poverty in 2020 without UI benefits.

Yet, the landscape for the UI program in Washington and states across the nation changed significantly during and since the COVID-19 pandemic. For this vital program to effectively support workers, employers and communities, we must recognize:

1. Individuals from marginalized communities including people of color, low-income residents, individuals with limited English proficiency, disabled people, seniors, veterans, and those living in rural areas experience the greatest challenges in accessing benefits.

2. Fraud attacks on the UI system, which are only likely to get more sophisticated with advancements in artificial intelligence, will continue to pose a significant threat to the integrity of the program.

3. Federal funding to states for staff, technology and other resources needed to pay eligible claimants timely and prevent fraud is woefully inadequate.

In order to address these challenges and ensure the UI program is effective and efficient in providing benefits while upholding program integrity, Washington State recommends:

1. Increase administrative funding as a whole to meet employer and claimant expectations for acceptable customer service and to be ready for the next recession.

2. Funding for information technology and modernization should be recurring, distinct, and separate from general UI administrative funding, should be adequate, and should not reduce overall administrative funding.

3. Fully cover the cost of identity verification and other fraud prevention systems as administrative costs under the Social Security Act.

4. Provide ongoing funding for a USDOL administered grant program for states to contract with community-based organizations to help potential unemployment claimants in underserved communities better understand available benefits.

5. Allow states to retain 25 percent of fraudulent federal funds recovered since enactment of the CARES Act. The provisions of the legislation should expressly apply retroactively. Washington State's pioneering effort, which resulted in returning hundreds of millions to the federal Treasury, should be rewarded, enabling further improvements in our UI system and operations.

6. Encourage further investments in UI program integrity by permitting states to use up to 5% of recovered claimant overpayments, and additional UI employer contributions collected as part of a state investigation, to be used solely for UI program improvements and UI staffing.

7. Extend the statute of limitations for filing criminal charges and civil enforcement related to UI from 5 to 10 years.

Thank you again Chairman LaHood, Ranking Member Davis, and other distinguished members of the Subcommittee for the opportunity to provide these written comments. Washington State stands ready to partner with Congress on reforms to improve the UI system to better serve eligible claimants while preventing fraud.

Submitted: February 7, 2025

Introduction

Chairman LaHood, Ranking Member Davis, and distinguished members of the Subcommittee, thank you for the opportunity to submit written testimony for the record following today's hearing on the critical issue of fraud and improper payments in unemployment benefits. SteadyIQ is the only platform that tracks total income for public benefits recipients—having processed over 3 billion transactions in 8 years—delivering proven, AI-driven analytics that transform complex data into actionable insights for government agencies. By uncovering significant trends and inefficiencies, SteadyIQ generates massive program savings while ensuring transparency and informed decision-making in public benefits programs.

The subcommittee's hearing addressed a symptom of a profound, systemic problem that extends far beyond unemployment insurance. The vulnerabilities exposed during the pandemic, particularly within the PUA and MEUC programs, are *not* isolated incidents. They are the *inevitable consequence* of relying on outdated, incomplete, and fundamentally flawed income verification methods across *all* federal and state-administered public benefit programs. This systemic failure results in an estimated *half a trillion dollars or more* in annual losses – a staggering figure encompassing improper payments, rampant fraud, and administrative waste. Simultaneously, this broken system delays and often denies benefits to those who *genuinely* qualify, undermining the very purpose of these essential programs and creating unnecessary hardship.

The PUA and MEUC Experience: A National Wake-Up Call

The Pandemic Unemployment Assistance (PUA) and Mixed Earner Unemployment Compensation (MEUC) programs, designed to assist self-employed individuals, gig workers, and those with mixed earnings, inadvertently exposed the critical weakness of traditional income verification. Because these programs served individuals whose income was *not* obtainable by standard data sources like state wage databases (SWICAs) or employer-reported payroll systems (e.g., The Work Number), eligibility was largely based on *self-attestation* – a system inherently vulnerable to both unintentional errors and intentional fraud.

The results were predictable and catastrophic. Criminals exploited the system, filing fraudulent claims on an unprecedented scale. State UI agencies, overwhelmed and lacking the tools for *real-time, total income verification*, were forced to make rapid decisions based on incomplete information. Billions of dollars were lost, and legitimate claimants faced agonizing delays.

Beyond Unemployment Insurance: The Pervasive Problem of Incomplete Income Data

The vulnerabilities exposed by the PUA and MEUC experience are *not* isolated incidents. They are symptomatic of a systemic problem that affects *virtually all* federal and state-administered entitlement programs, including SNAP, Medicaid, CHIP, TANF, housing assistance, and many others. These programs, despite their best intentions, routinely rely on a patchwork of data sources that are inherently *incomplete*, *lagging*, and often require *manual verification*:

- **State Wage Information Collection Agencies (SWICAs):** Provide *quarterly* wage data, representing a significant *time lag* and capturing only traditional W-2 employment. They miss the rapidly growing gig economy, contract work, and self-employment income.
- **The Work Number (Equifax):** A widely used commercial database, but with *limited coverage*, primarily focusing on W-2 payroll data from *participating* employers. It misses vast segments of the workforce and *entire categories*of income.
- **National Directory of New Hires (NDNH):** Helpful for identifying *new* employment, but still *lagging* and incomplete, and focused on traditional employment.
- **IRS Tax Return Data:** Inherently *outdated*, reflecting income from the *previous* tax year, and completely inadequate for capturing real-time changes in financial circumstances.
- **Applicant Self-Attestation:** For income not captured by the above, agencies are forced to rely on what applicants *claim* – a system inherently vulnerable to errors and abuse.

This reliance on incomplete and lagging data creates a massive "blind spot" in eligibility determinations. It means that agencies are routinely making decisions based on an *inaccurate* picture of an applicant's *total* financial situation.

The Consequences of Inadequate Income Verification:

The consequences of this systemic failure are far-reaching:

1. **Massive Financial Losses:** Estimates suggest that *up to $500 billion or more* is lost annually across all entitlement programs due to improper payments, a significant portion of which is directly attributable to inadequate income verification. This represents a staggering waste of taxpayer dollars.
2. **Erosion of Public Trust:** Widespread fraud and improper payments erode public trust in the integrity of government programs.
3. **Delayed Benefits for Eligible Individuals:** The cumbersome and often inaccurate verification processes can lead to significant delays in benefit delivery, causing hardship for those who genuinely qualify and rely on these programs for essential support.

4. **Increased Administrative Burden:** Agencies spend vast amounts of time and resources manually verifying income, investigating discrepancies, and attempting to recover overpayments.

5. **Disproportionate Impact on Vulnerable Populations:** The complexities and delays in the verification process disproportionately affect the most vulnerable populations, who may lack the resources or knowledge to navigate the system effectively.

Proven Solutions: State-Level Successes with Total Income Verification

The good news is that this problem is *solvable*. Several states have demonstrated brave leadership in *modernizing* income verification, by moving beyond the limitations of traditional data sources and embracing *real-time, total income visibility*, can dramatically improve program integrity and efficiency. These successes provide a clear blueprint for national reform:

- **Missouri Department of Family Services (DFS):** In 2024, Missouri implemented a new income verification technology, developed in collaboration with worker advocates, that identifies *previously unknown* forms of income, going far beyond the capabilities of traditional payroll-based systems or reliance on self-attestation. This solution is trained on over 3 billion financial transactions from benefits-receiving populations. The results were immediate and transformative as recently presented by Governor Mike Kehoe:
    - *17.4% of total applications* were deemed ineligible due to this newly discovered income – income that would have been *completely missed* by standard verification methods used nationwide.
    - Benefit delivery to *eligible* applicants was meaningfully *accelerated*, reducing delays and hardship.
    - **Crucially, this system was designed not just for fraud prevention, but also to ensure speed and accuracy for *eligible* claimants, reflecting a commitment to both program integrity and equitable access.**
- **Alabama Department of Labor (Pandemic Unemployment):** Faced with the unprecedented surge in unemployment claims during the pandemic, Alabama implemented automated income verification, resulting in:
    - Processing times slashed from *15-60 minutes per claim to under 3 minutes*.
    - *35% of claims processed without any manual caseworker intervention*, freeing up staff to focus on complex cases and fraud prevention.

- **Louisiana Department of Labor (Pandemic Unemployment and Disaster Unemployment):** Louisiana's modernization efforts, also driven by the need for rapid response during the pandemic, yielded similarly impressive results:
    - Payment processing times reduced from *three weeks to under 24 hours*.
    - Automated detection of high-risk applications prevented fraudulent payments *before* they were issued.

These states demonstrate that *real-time, total income verification*, coupled with automation, is not just a theoretical ideal; it is a *practical, achievable, and highly effective* solution that delivers:

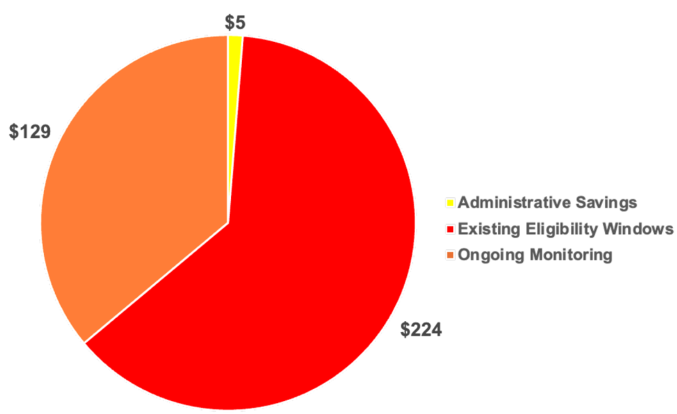
- **Significant reductions in improper payments and fraud.**
- **Dramatic improvements in administrative efficiency and cost savings.**
- **Faster and more accurate benefit delivery to eligible individuals.**
- **A more equitable and user-friendly experience for applicants.**

The $350+ Billion Solution: Total Income Verification and a Federal Mandate

The potential for nationwide savings and improved program integrity is immense. Based on the proven results achieved in states like Missouri, we can project *nationwide* savings of *over $350 billion annually* by implementing *total income verification* across major federal programs. This figure is derived from:

- **Reduced Improper Payments:** Extrapolating Missouri's 17.4% reduction in improper payments to major federal programs (Medicaid, SNAP, EITC, etc. – totaling over $1.3 trillion in annual spending) yields potential savings of *over $224 billion*. This is *in addition* to the $175B in *known* overpayments already identified by reporting federal agencies, and *doesn't* account for unknown overpayments across all Federal agencies.
- **Reduced Time on Programs:** Real-time income data allows for more accurate and timely eligibility determinations, reducing the average duration of benefit receipt. Even a modest 10% reduction in program participation time across major programs could save an additional *$129 billion annually*.
- **Reduced Administrative Costs:** Automating the income verification process, eliminating manual tasks, and reducing the need for caseworker intervention can save billions more. A conservative estimate, based on eliminating 90% of the manual work currently performed by over 85,000 eligibility workers (costing over $5 billion annually), would yield *$4.5 billion in annual savings*.

($ in billions)



Total Estimated Nationwide Savings: $357.5 Billion.

This $357.5 billion figure represents a *conservative* estimate. It does not include potential savings from programs not explicitly listed (e.g., SBA programs), nor does it fully account for the reduction in fraud that would result from a more robust, comprehensive verification system. It is likely that, with comprehensive, real-time income verification, the *true* savings could approach or even *exceed* the upper range of GAO estimates for improper payments across federal programs (over $500 billion). And again, does not reflect the massive amount of unknown improper payments due to a reliance on incomplete data.

A Call to Action: Federal Leadership is Imperative

The fragmented, inefficient, and fraud-prone state of income verification in US public benefits programs demands *immediate and decisive action at the federal level*. Incremental improvements are insufficient. This testimony urges Congress, the relevant federal agencies (including HHS, USDA, DOL, HUD, the IRS, Commerce and SSA), and the proposed Department of Government Efficiency (DOGE) to:

1. **Enact a Federal Mandate for Total Income Verification:**
    - Require *all* federal and state-administered, income-based entitlement programs to utilize *comprehensive, real-time income verification systems*. This mandate must explicitly move beyond the limitations of traditional data sources (lagging wage data, incomplete payroll records, self-attestation) and embrace solutions that capture *all* sources of income, including:

        - Real-time W-2 wages (through direct integrations with payroll providers).
        - 1099 contract income (from freelance work, contract work, etc.) - – accessed through secure and compliant methods, including *consumer-permissioned* financial account data, as implemented in the successful state examples.
        - Gig economy (small portion of 1099 contract income) earnings (from platforms like Uber, Lyft, DoorDash, etc.).
        - Non-work-related income (child support, alimony, short-term rental income, investment income, cash assistance, family and friend contributions, buying/selling of products online, etc.) – accessed through secure and compliant methods, including *consumer-permissioned* financial account data, as implemented in the successful state examples.
    - Establish clear standards for data accuracy, timeliness, security, and privacy, ensuring that all verification systems meet rigorous requirements.
    - Provide *sufficient funding and technical assistance* to states to support the implementation of these modernized systems. This should include funding for technology upgrades, staff training, and ongoing maintenance.
2. **Mandate Automation of Eligibility Determinations:**
    - Require states to automate eligibility determinations to the greatest extent possible, leveraging real-time income data and intelligent algorithms to eliminate unnecessary manual processing. This will dramatically reduce administrative costs, free up caseworker time for more complex tasks, and expedite benefit delivery.
    - Set performance benchmarks for processing times and accuracy rates, holding states accountable for achieving significant efficiency gains.
    - Provide incentives for states to adopt best practices in automation and process streamlining.
3. **Promote Data Sharing and Interoperability:**
    - Facilitate secure and efficient data sharing between federal and state agencies, and across different entitlement programs. This will require overcoming legal, technical, and bureaucratic barriers.

- Develop standardized data formats and APIs to promote interoperability between different systems and data sources.
- Ensure that all data sharing complies with strict privacy and security regulations.

4. **Invest in Technology and Infrastructure:**
    - Provide dedicated funding for states to upgrade their IT systems and implement modern income verification technologies like those used in Missouri, including real-time data access, automated data matching, and advanced analytics from deposit account data to ensure a higher likelihood of capturing all income.
    - Establish a federal center of excellence or clearinghouse to provide technical assistance, share best practices, and promote innovation in income verification.
5. **Hold Agencies Accountable and Champion Transparency:**
    - Establish clear performance metrics for program integrity, including improper payment rates, fraud detection rates, and processing times. These metrics should be publicly reported.
    - Hold agencies accountable for meeting these metrics and for implementing modernized income verification systems.
    - Conduct regular audits of state compliance with federal requirements.
    - Recognize and reward states that demonstrate leadership and innovation in income verification, fostering a culture of continuous improvement.
    - Mandate public reporting by each state and agency on critical KPIs.
6. **Establish a Federal Task Force:** Create a cross-agency task force with representatives from HHS, USDA, DOL, HUD, IRS, SSA, state agencies, technology experts, and privacy advocates to coordinate the implementation of these reforms, address challenges, and ensure a consistent and effective approach nationwide.
7. **Address the "Benefits Cliff":** Integrate tools and processes that help applicants and caseworkers understand how changes in income will affect benefit eligibility *in real-time*, mitigating the disincentive to work created by the "benefits cliff." This will require providing clear and accessible information about benefit calculations and allowing for real-time "what-if" scenarios.

The examples of Missouri, Alabama, and Louisiana are not isolated incidents; they are *proof of concept* for a national transformation. They demonstrate that *total income verification*, coupled with automation and a commitment to program integrity, is not just a desirable goal; it is an *achievable reality*. By following their lead and enacting a bold, comprehensive federal mandate, Congress can save taxpayers hundreds of billions of dollars annually, ensure that vital assistance reaches those who truly need it, and restore public trust in the integrity of the social safety net. The time for half-measures and incremental improvements is over. The time for decisive action is now.